

# **IN-KIND DONATION PRACTICES, CHALLENGES AND STRATEGIES FOR NGOS AND DONORS**

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# IN-KIND DONATION PRACTICES, CHALLENGES AND STRATEGIES FOR NGOS AND DONORS

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*To my parents -*

*Afia Islam & Mofizul Islam*

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## SUMMARY

This thesis focuses on developing a comprehensive framework for understanding the challenges NGOs face with in-kind donations in disaster relief. The overwhelming problem of inappropriate material donations, often referred to as the second disaster, has plagued disaster relief operations for decades now in both domestic and international disaster response. Despite efforts to promote “cash only” giving in disaster relief, unsolicited and mostly inappropriate in-kind giving continues to challenge NGOs in every major disaster. Holguin Vera et al. [118] identify it as one of the most pressing yet understudied challenges in disaster relief to date.

This thesis is divided into three parts. In the first part, we conduct a multidisciplinary literature review from philanthropy, economics, public policy, corporate philanthropy and corporate social responsibility to understand why donors donate in-kind and why NGOs accept those donations. We describe the roles of the various players involved and explain the structure of the distribution channels in-kind donations follow both in disaster and non-disaster contexts. We then explain the challenges NGOs and their donors face with in-kind donations in the context of these channels. We identify systemic issues in the distribution channels and highlight current policies and practices that contribute to the second disaster.

In the second part of this thesis, we propose a comprehensive framework to help donors, NGOs and policy makers comprehend the scope of the problem and identify strategies to address the challenge of unsolicited donations in disaster relief. Our framework provides a succinct representation of the main issues and players involved in the process in a format that is simple to work with and easy to understand. It

supports comprehension of the many related issues and can help NGOs and policy making bodies (e.g., FEMA, NVOAD, USAID) assess current strategies and devise new approaches and solution strategies.

In the third part of the thesis, we exploit our framework to propose a tiered strategy consisting of a set of solutions ranging from decision tools to help NGOs better screen in-kind donation offers to entire new channels for more productive in-kind giving in disaster relief. Each of these solutions may deter only a small fraction of the inappropriate flows, but together they can dramatically diminish the problem. Our proposed NGO decision tools both allow quick screening of donation offers in disaster relief and provide a framework for strategic management of corporate in-kind donations in the long term. We also propose a “retail donation model” which can transform a portion of the current stream of unwanted and unusable in-kind donations from individuals and community groups into a valuable source of needed relief supplies through an entirely new donation channel. We document a successful implementation of an on-line retail donation model in the 2012 Sandy response.

# CHAPTER I

## INTRODUCTION

### *1.1 Background*

The number, severity and impact of humanitarian crises worldwide has grown significantly in the three decades from 1980 to 2010. According to the Center for Research on the Epidemiology of Disasters (CRED) at the University of Louvain [2], the average of 309 disasters per year between 1981 and 1990 rose to 743 in the last decade (2001 to 2010), a nearly 140% increase. The number of people affected by these events has also grown from an average of 125 million annually, nearly 2.5% of the world's average population at the time, to 233 million during the last decade (2001 to 2010) or nearly 3.5% of the world's population. The annual economic damage (expressed in 2005 dollars) has tripled from \$36 billion in the 1980's to \$100 billion in the 2000s.

In response to these growing needs, global humanitarian aid (both for natural disasters and man-made conflicts) has increased as well. According to a recent report by Global Humanitarian Assistance [19], international humanitarian aid has nearly doubled in the last 10 years, from \$6.7 billion in 2000 (or \$8.57 billion in 2010 dollars) to an estimated \$16.7 billion in 2010. Most donations are given in the form of cash grants, but a significant fraction is donated “in-kind”, either in the form of goods, e.g., donations of food, tents, blankets, medicine, etc., or in the form of services such as volunteering and various types of pro-bono services. According to the Financial Tracking Service (FTS)<sup>1</sup> of the UN Office for the Coordination of Humanitarian Affairs (UNOCHA) [1], nearly 17% (by value) of all reported humanitarian aid from

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<sup>1</sup>The Financial Tracking Service (FTS) is a global, real-time database which records all reported international humanitarian aid. However, it is not comprehensive as reporting is voluntary.

2000 to 2010 was donated in-kind.<sup>2</sup>

A significant portion of humanitarian aid activities involves some type of logistics and aid organizations face severe challenges in this area. Since the 2004 Asian Tsunami, a large number of research papers have addressed various challenges of humanitarian logistics and many of them (e.g., see [192, 133, 120, 45, 183, 85]) point to unsolicited material donations as a major source of these challenges. These unsolicited and often inappropriate material donations can cause significant delays in customs clearance (in international disasters), occupy already scarce storage and transportation capacities and consume valuable staff time and money to manage. During the 2004 Asian Tsunami response for example, mountains of unusable donations piled up at Sri Lanka’s Colombo international airport and nearby relief warehouses nearly blocking incoming relief supplies and the aircraft that delivered them drained the airport’s limited fuel supplies [183].

Inappropriate donations are also a challenge for domestic disaster response. In the first two weeks after hurricane Katrina, for example, trucks dumped used clothing and other donated household items in relief staging areas and shelter parking lots without any coordination with the relief workers [120]. This is a common experience for relief organizations in nearly every major disaster in the U.S. (see for example [116, 162, 96] for news reports on unsolicited donations). This phenomenon is so common and painful that relief agencies have dubbed it *“the second disaster”*. In two separate humanitarian logistics research papers, Holguin et al. [117, 118] identify this phenomenon as one of the most under studied but important research areas in post disaster humanitarian logistics. In this thesis we use the word “disaster” primarily to refer to large scale sudden on-set natural disasters such as earthquakes, tsunamis, storms, cyclones, etc. In most cases, these types of catastrophic events

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<sup>2</sup>The actual percentage of in-kind donations is larger since FTS reporting is voluntary and many private in-kind donations either are not reported in the FTS database or are reported without any attributed value.

gather more unsolicited material donations and are followed by second disasters from logistics challenges.

To understand the sources and operational challenges of in-kind donations, we examine the scope and practices of in-kind donation in the United States, the largest in-kind donor country in the world. We explore in-kind donation to both domestic and international NGOs. Although the missions and operating environments of domestic and international NGOs differ significantly, they often solicit donations from similar donor groups and face similar challenges albeit with different magnitudes depending on the scope, size and location of the response.

In this thesis, we focus on in-kind donations to NGOs from private donors, i.e., corporations, individuals and community groups. A large portion of corporate giving in the U.S. is donated in kind to NGOs and in-kind giving is growing both in size and as percentage of total giving. According to an estimate by the Center Encouraging Corporate Philanthropy (CECP)<sup>3</sup> [30], corporate in-kind donations account for more than 95% of the total aggregate giving increase (by CECP survey participants) from 2007 to 2012. Developing a comprehensive understanding of donor motivations for giving in-kind and the challenges NGOs face in managing in-kind donations is critical for addressing the problem and building effective partnerships to address it.

Although the challenges of managing in-kind donations are more visible in disaster response, in-kind donations are difficult to manage even in non-disaster contexts. The majority of in-kind donations actually go to various long term development projects. In order to understand the causes of the second disaster, it is important to understand not only the sources of in-kind donations in disaster relief but also their supply and distribution channels in non-disaster contexts. We know of no literature in humanitarian logistics, non-profit management or philanthropy that describes the

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<sup>3</sup>CECP is a CEO membership non-profit organization that promote corporate philanthropy. Its members include 60 of the largest 100 companies in the FORTUNE 500.

sources and distribution channels of donated goods. To our knowledge this research provides the first in-depth study of the sources, challenges and channels of in-kind donations in the U.S..

We present a systematic view of the mechanisms that lead to the second disaster. More importantly, we propose a comprehensive framework for guiding NGOs and government agencies (e.g., USAID, FEMA) in the development of effective remedies for the second disaster. Based on this systematic description of the problem and leveraging our comprehensive framework, we propose a structured strategy and several specific initiatives. Sections 1.2 – 1.4 define the size and scope of our problem. We summarize the contributions of this thesis in the field of humanitarian logistics and non-profit management in Section 1.5.

## ***1.2 Scope and size of in-kind giving in the U.S.***

To define the scope of our research more specifically, we establish definitions of in-kind donation and NGO as follows:

### **1.2.1 Definition of in-kind donation and NGO**

Although in-kind donations are mostly given in the form of goods or services, in-kind donations also encompass donations of properties, stocks, bonds and other financial assets. In this thesis we focus on those in-kind donations that cannot be easily converted to cash. Relatively liquid financial assets are fundamentally different in their characteristics and can be treated as cash donations. Most often beneficiaries use donations of relatively liquid financial assets by employing the cash generated from their sale. We exclude such financial assets from our discussion of in-kind donations and define in-kind donations to be donations of goods or services for charitable purposes. In the non-profit world, these donations are also known as Gifts-in-Kind or “GIK”.

For the purposes of this thesis, we adopt the World Bank’s terminology for NGOs



(see [199] for other definitions) with some modifications. The World Bank defines NGO [10] as follows:

NGOs include a wide variety of groups and institutions that are entirely or largely independent of government, and characterized primarily by humanitarian or cooperative, rather than commercial objectives ... that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development.

We further restrict the use of “NGO” to refer to organizations that provide some level of direct service to beneficiaries or other NGOs such as providing food, shelter, medical services, etc. Our definition excludes non-profit organizations such as universities, museums, environmental and other policy advocacy groups that promote various social and global issues without providing direct basic services.

### **1.2.2 Estimated size of annual in-kind giving in the U.S.**

To understand the size and scope of in-kind donations to NGOs in the U.S., we estimate the value of in-kind donations made by various types of donors. One of the primary challenges in estimating the value of in-kind donations is the valuation process itself. The IRS [12] suggests using “Fair Market Value” to estimate the value of in-kind donations, but these valuations are subjective. Depending upon the valuation process the “Fair Market Value” of an in-kind donation could be its retail value, wholesale value, cost to produce or some other value.

Because of the subjectivities around the valuation of donated goods and services, any estimate of the total value of in-kind donations to NGOs is questionable. However, a reasonable estimate can be used to develop an understanding the level of and trends in in-kind donations.

We categorize in-kind donors among three types:

1. Individual and small group donors,
2. Companies and
3. Government agencies

Based on various data sources, U.S. donors (individuals, businesses and the government) contribute roughly \$58 billion in-kind to domestic and international NGOs every year. Nearly 68% of the total \$58 billion in-kind donation comes from individual volunteering<sup>4</sup>, mostly to local NGOs (see [17] for detailed volunteering data). The remaining \$18 billion is donated in the form of goods (see Table 1 for giving by donor type). The majority of these donated products supports various domestic social causes such as fighting domestic hunger, job training for unemployed people, or supporting rehabilitation centers, etc. The rest goes to various international relief and development programs.

#### *1.2.2.1 Individual and small group in-kind giving*

Individuals and community groups contribute the largest share of in-kind donations. They donate products such as canned or packaged food, books, clothing or school supplies to local non-profits through various in-kind fund raising events. Most of the donated materials are distributed directly to individuals and families in need within the U.S. and internationally. By our estimate, based on the IRS report [138], individual tax payers donate nearly \$12 billion each year in the form of donations of used clothing and household items (see Figure 6). NGOs generate cash by reselling donated products through thrift stores. According to an estimate by National Resale Professionals [148], there are over 25,000 thrift stores in the United States, many of which are run by various local or national charities. For example, Goodwill Industries

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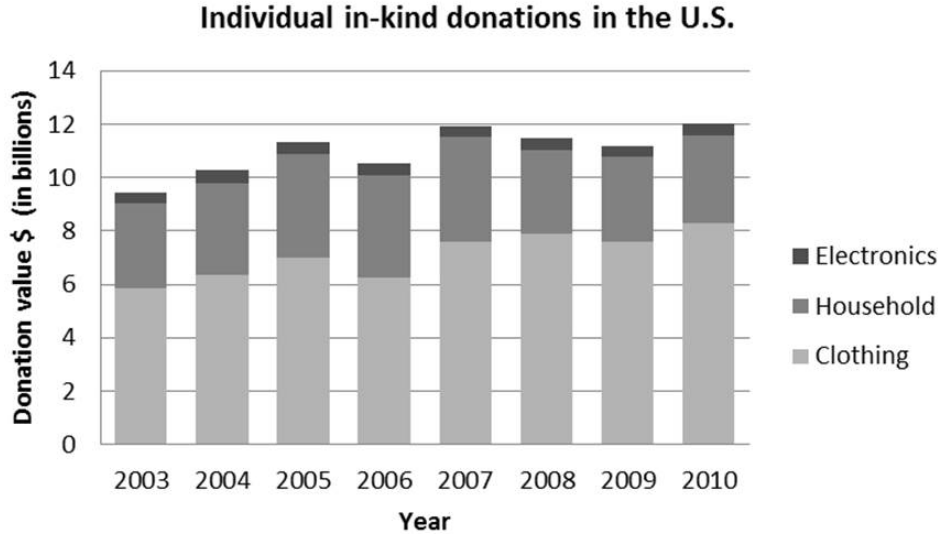
<sup>4</sup>We only considered volunteering hours that are related to direct services such as food preparation and distribution etc. We have not considered volunteering hours spent for in-direct services such as fundraising.

**Table 1:** Estimated annual in-kind donations to NGOs from various donor groups in the U.S. (based on 2010 estimate)

Donor	Donation type	Estimated value (billions USD) in 2010	Methods used and sources
Individuals	Volunteering	40	Estimated conservatively at 23.5 % of total volunteering hours (valued at \$173 billion) that are spent on preparing and serving food [25]
Individuals	In-kind goods	12	Individual donations of clothing, household items and electronics claimed on IRS form 8283 by individual donors [138]
Corporations	In-kind goods and services	4.1	Estimated as 48% of total in-kind giving by companies, which represents companies' giving in disaster relief (4%), Health and Social Services (30%) and Community and Economic Development (14%) [30]
Government	In-kind goods	1.9	Estimated value of U.S. Government donations of food for international aid under Food for Peace, Title II program [24]

runs over 2500 thrift stores in the U.S., which generate over \$2 billion in annual revenue. Most of the money generated from these stores is used to support various job training and job placement services.

Individual in-kind contributions in the form of volunteering dwarfs the value of contributed goods. Individuals volunteer a total of 1.8 billion hours annually to NGOs. Valued at \$40 billion, this is nearly equivalent to a full time workforce of 1 million or about half the size of Walmart's global workforce (based on WalMart's corporate fact sheet, see [195]). Volunteers practically run the day-to-day operations of many smaller NGOs in the U.S..



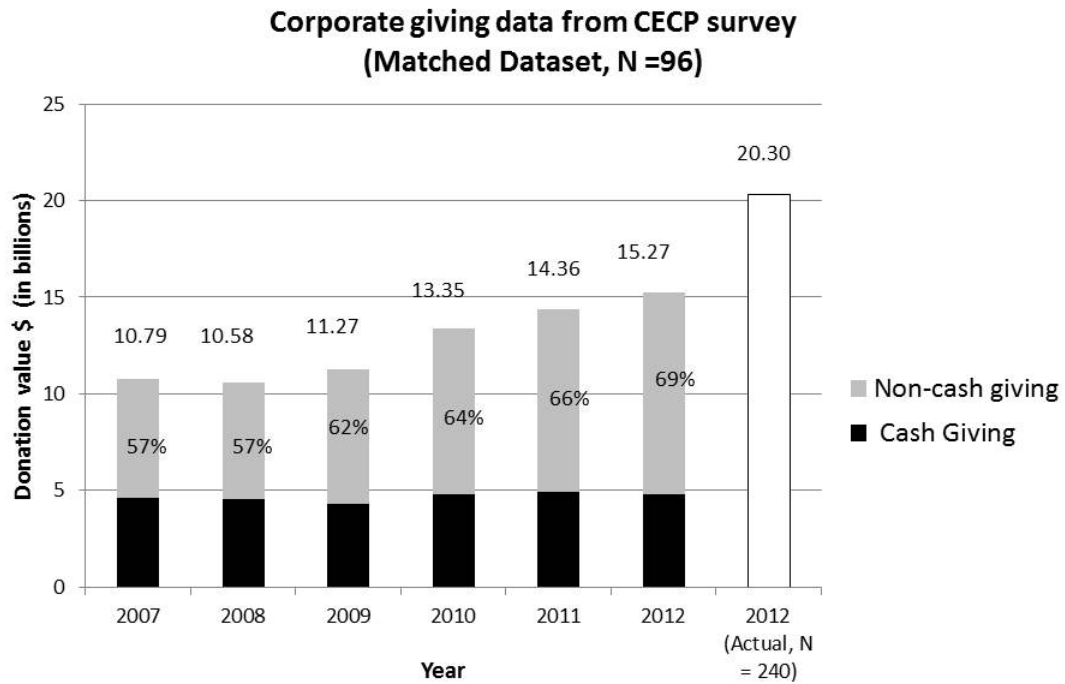
Source: Individual Noncash Contributions (2003 – 2010)  
*Statistics of Income Bulletin, IRS publications*

**Figure 1:** Individual donors’ in-kind giving in the U.S.

#### *1.2.2.2 Corporate in-kind giving*

Companies, from small local businesses to large multi-national corporations, also donate products and services to NGOs. According to our estimate, the majority of corporate donations (nearly 60% to 70% of total donations by value) is donated in-kind in the U.S.. Most corporate product donations are new products often from surplus inventories. We have not found any comprehensive data source that estimates total corporate in-kind donations to NGOs. The most widely used measure for philanthropic contributions, Giving USA [21], does not report in-kind gifts separately. Our estimate is based on the 2006 Business Week survey of S&P 500 companies [62] and the Corporations Encouraging Corporate Philanthropy (CECP) report [30] of corporate donations by member corporations. Both sources estimate in-kind donations at over 60% of total donations. CECP, a CEO membership organization that

includes 61 of the Fortune 100 companies, reported [30] \$10.46 billion in non-cash giving out of a total \$15.27 billion donated by 96 companies in 2012. This is nearly 70% higher than 2007 non-cash giving of \$6.16 billion by these companies (of a total \$10.79 billion).



Source: Giving in Numbers, 2013 CECF

**Figure 2:** Corporate in-kind giving in the U.S.

Today’s corporate executives struggle to find an appropriate balance between stock holders’ demands for higher quarterly profits and other stakeholders’ demands for companies to play a greater role in addressing social ills. Corporate philanthropy is shifting away from “check writing” and moving toward more business driven giving, which often involves engaging non-cash resources for philanthropic initiatives. Many

companies have shifted donations toward in-kind giving over the years to manage both shareholders’ and other stakeholders’ expectations.

The most prominent forms of corporate in-kind donations are product donations, pro-bono services and employee volunteering. Employee volunteering is generally reported in terms of time rather than value and is not included in the CECP estimate of \$10.46 billion non-cash donations in 2012. Many of these donations are made to educational institutions, museums and other organizations, which do not fall within our definition of NGOs. We only consider corporate donations made to health and social services, disaster relief and community development projects, which account for roughly 48% of all donations made by CECP member corporations. This yields a conservative estimate of \$4.1 billion in annual corporate in-kind donations to NGOs. Based on 2012 CECP data, this donation is about \$4.6 billion.

#### *1.2.2.3 Government in-kind giving*

The United States government is in fact the largest in-kind donor to international relief and development programs in the world. USAID’s Title II Food For Peace program, for example, has distributed over 106 million metric tons of commodities for international relief and development to over 100 countries since 1954 [11, 16]. The U.S. government also donates other in-kind relief supplies such as tents, plastic sheeting, blankets, etc. to support relief efforts in international disasters. In fiscal year 2010 (between October 1, 2009 to September 30, 2010), USAID’s Office of Foreign Disaster Assistance (OFDA) distributed nearly \$27 million worth of in-kind relief commodities in response to 73 disaster incidences internationally [23]. We estimate that the U.S. government donates nearly \$2 billion worth of in-kind donations (mostly food commodities) every year for emergency relief and other development projects internationally. We do not include in this estimate government domestic food assistance

programs such as SNAP (formerly known as the food stamp program), WIC, National School Lunch Program and others. According to a USDA report [32], the U.S. government spent over \$100 billion in FY 2011 for these programs. We have not included these programs in our estimate as these are different in nature – they primarily transfer “restricted cash” instead of physical goods to beneficiaries.

Along with food and other relief supplies, the U.S. and other countries also send civil and military assets and people to participate in rescue operations after large scale international disasters such as the 2004 Asian Tsunami or the 2010 Haiti Earthquake. One day after the Haiti earthquake, for example, the 1st Special Operations Wing of the U.S. Air Force re-opened Haiti’s Toussaint L’Ouverture International Airport, while the U.S. Coast Guard vessel Higgins and U.S. military aircraft began delivering relief supplies and evacuating American citizens [82]. According to the FTS database [1], the U.S. government donated \$464 million through the Department of Defense (DoD) in support of humanitarian efforts in Haiti in 2010. Government in-kind donations are diverse in nature and often provide the most timely and critical resources in emergencies.

### ***1.3 In-kind donations in disaster response***

After a large disaster, donors often contribute in-kind (mostly products) to relief operations in an effort to help disaster victims. People donate canned food, used clothing and other household items to disaster victims through various NGOs that participate in relief operations. Many companies and governments also donate relief supplies to the emergency response.

Appropriate in-kind donations in the time of disaster response can save thousands of lives. For example, after January 12th, 2010 devastating earthquake in Haiti, many hospitals and medical equipment manufacturers immediately donated surgical equipment and supplies to various NGOs providing medical services, saving thousands

of victims from losing limbs or even lives in many cases.

Most NGOs struggle with limited availability of funds in the early days of the response as most of their money is tied to specific projects. It takes several weeks to get funding from large government and private sector donors after submitting funding requests based on initial assessment reports. As a result, most NGOs generally have to fund themselves in the critical first few weeks after a disaster.

Appropriate in-kind donations in the initial stages of response can help NGOs stretch their limited funds to help more victims. Finding the few appropriate donations among the vast sea of inappropriate offers, however, is a frustrating and time-consuming exercise for NGO staff that are already hard pressed in emergency situations.

Many NGOs find themselves in a dilemma: whether to continue throwing limited human resources at sifting through in-kind offers in the hope of finding appropriate donations or to completely avoid in-kind donations and focus their limited manpower on purchasing required supplies with the limited cash available.

Over the last 20 to 30 years the problem has exploded: there are more disasters affecting more people and receiving more media attention. The NGO community responding to these disasters has become larger and more fragmented, the number of donors has increased and they are increasingly donating in-kind. As a result, the NGO community is drowning in a flood of in-kind donations while disaster victims continue to thirst for relief.

Even when NGOs do accept donated supplies, moving them is a challenge. Most donors are not willing to pay for transportation. They expect the recipient NGO to pick up the goods – generally on relatively short notice – and manage and pay for their transport, storage and distribution. NGOs must decide between paying to transport donated goods that may not match their needs perfectly and purchasing more suitable but also more expensive supplies in the open market. This decision is



complicated by the realization that purchasing supplies locally offers the secondary benefit of supporting the local economy, one of strongest arguments against importing in-kind donations from outside the country in international disaster response, which can potentially destroy the local market for specific commodities. On the other hand, large scale disasters can reduce the availability of key relief items and drive their local prices to unaffordable levels.

#### ***1.4 In-kind donation model (non-disaster context)***

Despite all these challenges, some NGOs have developed effective programs around in-kind donations. Feeding America, for example, successfully uses in-kind food donations to address domestic hunger in the U.S. Its network of nearly 200 food banks across the U.S. collects, sorts and distributes donated food to millions of Americans every day through food pantries, soup kitchens and other community organizations. In 2010, Feeding America’s food bank network, the largest hunger relief charity network in the U.S., distributed over 3 billion pounds of food to over 37 million people [18].

Feeding America has built relationships with national grocery retailers and food manufacturers who donate a steady flow of food commodities supplemented by government donations, community food drives and the food banks’ own purchases. The organization has successfully aligned its philanthropic objectives with the business interests of its donors and built an appropriate logistics infrastructure to overcome operating challenges in the delivery process. Unfortunately, for many NGOs in-kind donation programs are not well structured and often cause severe operational challenges. Most will agree that there is enormous opportunity for improvement.

Corporations are increasingly interested in achieving higher social and business impacts with their philanthropic contributions. They are looking for ways to leverage their unique capabilities and resources to address social problems that are strategically

important to them [13].

Porter et al. [156] claim that corporate philanthropy made in a strategic manner can improve the business context and hence the company's long term competitiveness. Most successful examples of strategic philanthropy they cite involve donation of employee time, products or technologies such as IBM's Reinventing Education, Cisco's Networking Academy or Pfizer's Zithromax<sup>®</sup> donation program for fighting blinding Trachoma globally.

### ***1.5 Research contributions***

Despite the growing importance of in-kind giving to NGOs, we know of no comprehensive research that documents its sources, motivations, the parties involved in the distribution process and the forces that shape these transactions. Although much of the humanitarian logistics literature has identified unsolicited product donations as one of the main challenges in effective logistics coordination and operations in disaster relief, that work have not gone on to investigate the sources and pathways and suggest specific initiatives for addressing them. This thesis provides, to the best of our knowledge, the first comprehensive study of in-kind donations to NGOs.

This study provides a better understanding of the challenges in today's in-kind donation practices to NGO professionals and donors. This research can help decision makers in NGOs, donor organizations and policy making bodies (government agencies including USAID, FEMA, IRS) be more strategic about their initiatives and policy recommendations with respect to in-kind giving. We believe without such comprehensive understanding, in-kind donations will remain a largely adhoc and opportunistic resource stream for most NGOs, creating systemic challenges for NGO operations, especially in the time of disaster relief.

Individuals contributing their time, personal items and even purchased supplies are an important and growing source of in-kind donations to NGOs. This is also

the most problematic source in disaster relief. Over the years, NGOs have tried to convince donors to contribute only cash in an effort to reduce the impact of the second disaster. AidMatrix introduced its donation portal (in 2007) to help NGOs and donors better communicate their needs and their offers. Unfortunately, unsolicited in-kind donations continue to be a major problem for disaster relief NGOs in the U.S.. These approaches are not sufficient on their own to change current in-kind giving practices in disaster relief. We propose a comprehensive solution framework addressing the motivations, relationships and transactions of the entities involved in in-kind giving. This framework can help NGOs and policy makers address the problem in a more systematic and effective way.

Nearly every seasoned NGO practitioner has a personal horror story involving corporate in-kind donations and many would prefer not to deal with in-kind donations at all. But in-kind donations represent the fastest growing segment of philanthropic giving especially from corporate donors and the reality is that NGOs must learn to manage them effectively. This thesis proposes a decision framework and tool to help NGOs strategically manage corporate in-kind donations.

This thesis not only explores and explains the current practices of in-kind donations, but also proposes alternative engagement models that allow NGOs to tap donor motivations more effectively and productively. We offer a conceptual “retail donation model”, which can align individual donors’, corporate donors’ and NGOs’ motivations and create a productive alternative channel for in-kind giving in disaster relief. We present a case from the 2012 super storm Sandy response describing how a grass roots organization implemented an on-line version of the model with great success.

The contributions of this thesis are:

- We provide a structured description of donors’ and NGOs’ motivations for giving and receiving in-kind donations. Although “the second disaster” manifests

itself as a logistics problem, we argue that any effective solution to the problem requires a deeper understanding of the economic and social motivations of donors and NGOs to engage in the behaviors that generate it. Our description in Chapter 2 of donor and NGO motivations in the context of in-kind giving fills an important gap in the humanitarian logistics literature.

- This thesis provides a first comprehensive study of in-kind donations including sources, players, channels and challenges. Chapter 3 provides a formal description of NGO and donor roles in the distribution of in-kind donations and the various channels they form to move donated good from original donors to final beneficiaries. Chapter 4 discuss the various transactional and systemic challenges faced by NGOs and their donors with respect to in-kind donations in disaster relief.
- In Chapter 5 we offer a comprehensive framework that can help NGOs and government agencies (FEMA, CIDI) comprehend the scope of the problem and position responses to it. Our framework provides a succinct representation of the main issues and players involved in the process in a format that is simple to work with and easy to understand. It supports comprehension of the many related issues and can help NGOs and policy making bodies assess current strategies and devise new approaches and solution strategies.
- In Chapter 5 we also propose a strategy based on a systematic, multi-layered array of interventions each of which deters only a fraction of the inappropriate flows, but which together dramatically diminish the problem.
- In Chapter 6 we offer a decision framework and donation assessment tool to help NGOs make quick decisions about which in-kind donations to accept and manage in-kind donations more strategically over time. We also propose an alternative giving model called the “retail donation model” to help individual

donors donate in-kind in disaster relief productively. We present a case describing an on-line implementation of the model that proved very effective.

The solution framework presented here can serve as a basis for future research in this area as we discuss in Chapter 7. This thesis provides practical solutions to NGOs and a road map for disaster relief advocacy groups (e.g., National Voluntary Organizations Active in Disasters, NVOAD) and government agencies (FEMA, USAID and CIDI) to significantly reduce the impact of the second disaster.

## CHAPTER II

# MOTIVATIONS: WHY GIVE, WHY GIVE IN-KIND AND WHY ACCEPT IN-KIND DONATIONS

### *2.1 Introduction*

In this chapter we explore donor motivations for giving in-kind and NGO motivations for accepting in-kind donations. Simply put, it is very difficult to change behavior without changing motivations and incentives. In order to reduce the second disaster, we must understand, if not actually change, the motivations and actions that lead to it. This chapter strives to understand why donors give in-kind and why NGOs accept those donations.

We divide donors into three categories: individuals and community groups, government donors and corporate or business donors, to better understand their motivations for giving in general and for giving in-kind specifically. In-kind donations by individuals and community groups are the most visible, chaotic and poorly managed. Frequently identified as the primary cause of the second disaster, these donations are a primary focus of this thesis. Corporate donations are less visible, but larger and growing. As a potential source of valuable supplies, corporate in-kind donations are also an important focus of this thesis. Government in-kind donations from U.S. are generally targeted and well managed (our scope of discussion is U.S. based donors) and, while there are always opportunities for improvement, these donations are not a major source of problems and so are not our primary focus.

There is a significant literature in philanthropy that explores why individual donors give to charity. The literature on why donors give in-kind is limited. There is

some work on volunteering, reviewed in Section 2.2.3, which does explore why individuals volunteer for charitable causes. While that work does shed some light on our primary question of why donors give in-kind, we are not aware of any research that focuses directly on donor motivations for making product donations.

Our intent is to summarize the relevant literature on donor motivations for giving. We specialize ideas and findings about giving in general to the case of giving in-kind. While the thesis focuses primarily on the two donor categories: individuals and community groups and corporations, we do discuss government motivations for giving in some depth because the extensive economics literature addressing the question of why governments transfer social benefits in-kind provides insights into the question of why individuals, community groups and corporations give in-kind.

This chapter addresses three questions:

1. **Why do donors give?** In Section 2.2.1 we review the extensive literature from philanthropy on why individuals give and in Sections 2.3.3 we review the corporate social responsibility literature on why companies give.
2. **Why do donors give in-kind?** In Sections 2.2.2, 2.2.3 and 2.3.4, we adapt the findings on why donors give to the more specific and less extensively studied question of why donors give in-kind.
3. **Why do NGOs accept in-kind donations?** In Section 2.4, we address the question of why NGOs accept in-kind donations with special focus on the motivations for accepting less-than-ideal in-kind donations, the kinds of donations that often generate exactly the issues and problems that make in-kind donations such a problematic and often controversial issue.

Our cross disciplinary literature review suggests numerous and compelling motivations for private in-kind donations. Those motivations are unlikely to diminish or go away. Simply educating donors about the detrimental effect of unsolicited in-kind

donations and encouraging cash donations in disaster relief without changing donor and NGO motivations is unlikely to have a profound effect on behavior. We must still be prepared to handle the inevitable in-kind donations that will continue to follow every major disaster. In Chapter 5, we propose a comprehensive framework for understanding the relationships between motivations and actions of donors and NGOs. The framework helps present a more complete picture of different opportunities for influencing the flow of in-kind donations in ways that can mitigate the second disaster.

## ***2.2 Individual and community group giving***

Although what motivates people to give is primarily a behavioral question, it is intertwined with other fields of study such as sociology and economics, as giving is a social phenomenon with definite economic implications. As a consequence, philanthropic research has become cross-disciplinary over the years.

While the literature on why people give is large, comprehensive and crosses many disciplines, to our knowledge no academic research explores why people choose different ways to donate, i.e., donate money, donate goods, donate time (volunteering), etc. Several studies in philanthropy describe individual donor motivations for volunteering, but no research exists on “general” motivations for giving in-kind or giving goods. Although we are not primarily interested in why people volunteer, understanding their motivations for doing so provides insights into why donors participate in other forms of in-kind giving and, in particular, product donations. In this section we review research findings on individual donor’s motivations for giving in general and for in-kind giving as a specific case.

### **2.2.1 Mechanisms driving individual giving**

In a recent cross sector literature review surveying over 500 published articles, Bekkers et al. [56] identify eight mechanisms described in the literature from various fields as key determinants of giving. Those mechanisms, briefly summarized in the following



paragraphs, are: (1) awareness of the need, (2) solicitation (3) costs and benefits (4) altruism (5) reputation (6) psychological benefits (7) values and (8) efficacy.

#### **2.2.1.1 Awareness of the need**

*Awareness of the need*, as principally discussed in the social psychology literature, refers to the donor’s knowledge and awareness of victims’ or beneficiaries’ needs and situation through various media, such as personal experience, the experiences of relatives or friends, print and digital media stories or from other information sources. Field experiments [140, 172, 180] and survey studies [74, 136] suggest that the greater the awareness of the need, the greater the likelihood of giving. A study by Wagner et al. [194] suggests that subjective perceptions of needs rather than the objective need itself influence donation behavior.

#### **2.2.1.2 Solicitation**

*Solicitation* refers to the act of asking a person or organization to donate. Survey studies [67, 54] in the U.S. and the Netherlands indicate that the overwhelming majority of donations (nearly 85% in the U.S. and 86% in the Netherlands) is made in response to some solicitation. While some aspects of the solicitation process clearly contribute to awareness of the need, the act of solicitation also includes the distinct dimension of confronting the target with the specific question of how to respond to the request. Studies [198, 189] suggest there is a limit to the relationship between the frequency of solicitation and the level of donation. At some point additional solicitations generate “donor fatigue” and can actually reduce the level of donations.

#### **2.2.1.3 Cost and benefit**

*Cost and benefit* in this context refers to the balance between the expenses and difficulties associated with giving and the rewards, either directly to the donor or indirectly

to the larger community, associated with giving. A series of articles in the philanthropy literature [127, 55, 90] suggests that when the cost of giving is reduced, the level of giving increases. The large body of economics research that examines the effects various tax policies have on giving, reaches a similar conclusion (For review articles on this topic, see Steinberg [181], Simmons et al. [174], and Pelozo et al. [153]). Andreoni et al. [42] suggest that donors tend to give more when they receive intangible benefits such as private access to events, social recognition or perceived enhancement in prestige, etc. in return.

#### 2.2.1.4 **Altruism**

*Altruism* refers to selfless acts of giving for others' welfare. Although altruism acts as a strong motive for giving, recent economic models [40] suggest giving may not be purely altruistic in nature. Donors also receive personal benefits from giving. In contrast to most of the previous economics research, which modeled donors' behavior as purely altruistic, in 1989, Andreoni [40] argued that donors receive both personal and societal benefits from giving, which he called "impure altruism". Impure altruism explains why government contributions do not significantly "crowd out" or replace private contributions. If donors were purely altruistic and only cared about unmet social needs, an increase in contributions from government to fulfill those needs should reduce private contributions by a corresponding amount. Donors should be equally happy regardless of who makes the donation.

Empirical studies [64, 134] suggest the opposite is true: Increased government contributions do not significantly reduce private contributions. The absence of pronounced crowding out suggests that factors other than pure altruism influence charitable giving.

#### 2.2.1.5 **Reputation**

*Reputation* refers to the social consequences of giving or not giving. Studies [197,

122, 143] suggest that giving to charities is regarded as a positive thing to do and that donors gain social recognition, especially among their peers. Andreoni et al. [42] have found that donors prefer that others be aware of their contributions. Donors sometimes demonstrate their charitable giving through signs or wearables such as pink ribbons, yellow bands or “Red” branded products. This phenomenon is described as “conspicuous compassion” in the literature (see for example Grace et al. [110]). In a laboratory experiment, Clark [76] shows that individuals are even willing to pay so that others will recognize their contributions. On the other hand, several studies [46, 49, 58] suggest that failing to give can damage one’s reputation when donations are publicized and observable.

#### 2.2.1.6 Psychological benefit

*Psychological benefit* refers to the emotional benefits of giving often described as “warm glow” or “joy of giving” [41] or “empathetic joy” [50] in the literature.

A recent neuropsychological study [114] shows that donating to charity creates brain activities in the ventral striatum and the insulae, which are generally linked to “reward processing”. The pleasurable experience associated with giving can also come from alleviating feelings of guilt associated with not giving, or from acting in line with social norms and one’s own pro-social (i.e., belief in benefiting others or the society as a whole), or altruistic self-image. A Dutch study [203] finds simply “feeling good” is a motive for donating to charitable causes. Other studies [167, 123] find that giving can improve one’s self-esteem and can be linked with a sense of accomplishment.

#### 2.2.1.7 Values

*Values* in this context refers to a donor’s internal belief about the worthiness of a cause. Several survey studies [52, 53, 191, 36, 196, 161, 171] suggest that people who have pro-social values, who feel socially responsible, are less materialistic and care more about the social order and justice are more likely to give. Giving allows

donors to demonstrate their values and contribute to creating a better society. In an empirical study of U.K. based charitable organizations, Bennet et al. [57] find that people are more likely to donate to an organization whose values match their own. Bennet and his colleagues interviewed 250 people in central London and asked each person to imagine he had been given a certain sum of money to donate and to choose which charity he would give to from among three NGOs working in different fields. The authors also asked each person about his personal values, inclinations and other characteristics. The authors found significant correlation between respondents' personal values and the NGOs they chose.

#### 2.2.1.8 **Efficacy**

*Efficacy* refers to a donor's perception that his contribution makes a difference. Survey studies [44, 86, 88, 142, 159, 179] confirm that people are less likely to give when they perceive that their contribution is not going to make a difference. Parsons's field based experiment of donors' responses [151] shows that sharing financial information or other forms of activity reports along with mail solicitations generates more donations on average than a fund-raising letter alone. The effect is even larger (approximately 40% more donations) for donors who had given previously. Studies in Canada and in the U.S. [68, 187] find a positive correlation between a non-profit's organizational efficiency (i.e., "the degree to which nonprofits direct their available resources to the organization's mission"<sup>1</sup>, or the "average portion of each contribution that reaches the organization's beneficiaries"<sup>2</sup>) and the private donations it receives. Other survey articles [51, 168, 44, 169, 170] suggest that people are generally averse to supporting organizations that rely on expensive fund raising methods or have high overhead costs.

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<sup>1</sup>Page 266, Trussel, J.M. and Parsons, L.M., "Financial reporting factors affecting donations to charitable organizations", *Advances in Accounting*, Vol **23**, pp. 263–285, (2007)

<sup>2</sup>*Ibid.*

We know of no published research focused on individuals' motivations for choosing to donate in-kind rather than cash. The only work we are aware of that differentiates among different modes of giving is David et al. [176]. The authors propose a three-stage conceptual model to describe donors' decision processes in terms of (1) background factors (e.g. the philosophical, political and demographic characteristics of the donor, previous experience, awareness of the need, etc.) (2) triggers (e.g. solicitations, calls for volunteers, etc.) and (3) giving behaviors (e.g. giving cash, volunteering, participating in civic organizations, etc.). David et al.'s model does not, however, include reputation, psychological benefits or efficacy, nor does it address how these factors influence the donor's choice of the donation mode. It also does not address product giving, our primary interest, as a separate mode of giving. In fact, most of the research in philanthropy discusses general motivations for giving without explicitly considering the mode of giving (cash vs. in-kind).

### **2.2.2 Economic rationale for in-kind transfers**

Although it is relevant, we do not examine in detail motivations for government giving in this thesis. In this section, we do review the extensive economic literature on the topic of rationales behind government in-kind benefit transfers to citizen through social welfare programs as it provides insights into the less well studied question of why individuals, community groups and corporations give in-kind to NGOs.

Most research articles (see Currie et al. [80] for a good review) on government in-kind transfers consider social welfare programs as many of these programs represent enormous government obligations and transfer a significant portion of the benefits through non-cash transfers (i.e., services, products, vouchers etc.).

In economic terms, government benefits in the form of cash transfers leave the choice of how to consume or employ the benefit to the recipient, thereby allowing the recipient to maximize his or her utility. In-kind transfers, on the other hand, provide

the giver more control over how the benefit is employed, but can result in what is referred to as “dead-weight loss” when the recipients’ value for the in-kind benefit is less than the giver’s cost to provide it.

Numerous papers in the economics literature explore why governments transfer benefits in-kind despite the deadweight loss (see, for example, [59, 184, 185, 146]). In a survey article summarizing theories and models about government in-kind transfers, Currie et al. [80] report that the leading explanations for in-kind transfers are *Paternalism*, which we discuss in Section 2.2.2.1, and the *Self-targeting* nature of in-kind transfers, which we discuss in Section 2.2.2.2.

### 2.2.2.1 Paternalism

The Stanford Encyclopedia of Philosophy [89] defines *Paternalism* as “... the interference of a state or an individual with another person, against their will, and defended or motivated by a claim that the person interfered with will be better off or protected from harm.” In simple terms, paternalism is when the government acts like a parent, deciding how citizens will best be served by a specific benefit, without regard to their preferences.

Currie et al. [80] suggest that the different interpretations of paternalism in the literature arise from different formulations of society’s social welfare function. In one approach [152], goods that are transferred in-kind constitute an argument in the social welfare function, thereby omitting the individual recipient’s utility for these goods. Balsey [59] criticizes this approach as it undermines the notion of consumer sovereignty or individual preference and proposes an alternative formulation of the social welfare function in which social planners and individuals assign different weights to an individual’s consumption of a particular good.

Lester [184] proposes that individuals have two distinct preferences for the consumption of goods: *individual-societal preferences* and *private-personal preferences*.

Individual societal preferences refer to an individual’s preference to have certain goods available in society at a certain level for the overall benefit of society. A person’s *individual-societal preferences* need not coincide with his or her preferences for personal consumption, i.e. *private-personal preferences*. For example, people might want to see that everyone in society has access to sufficient food, even though at an individual level, they might value receiving “extra cash” over receiving the equivalent value in food.

One school of thought (see for example, Daly et al. [81] and Garfinkel [109]) argues that members of society who do not receive government in-kind transfers (e.g., middle class tax payers) do derive utility from seeing that recipients have access to those goods. Tobin [185] argues that while society accepts income inequality, it wants all individuals to be able to meet basic needs for food, medical services, housing, etc. Kelman suggests [129] government in-kind transfers of basic necessities are justified or motivated by society’s perception that individuals have a right to meet certain basic necessities, but not to the cash equivalent of those necessities.

Empirical evidence suggests that paternalism also plays a role in individual donors’ decisions regarding how to donate. In a laboratory experiment, Jacobsson et al. [93] found that donors faced with the choice between donating money or nicotine patches to diabetes patients who smoke, more than 90% chose to donate patches. They concluded that individual donors can be influenced by paternalistic motives (especially in case of health related charities) that favor in-kind giving. Breman et al. [43] similarly found that when subjects were given a choice of donating money or mosquito nets to an anonymous household in Zambia, nearly 65% donated at least one mosquito net and 29% only donated mosquito nets. These empirical results support Tobin’s argument [185] that paternalism is more prevalent with causes that involve basic necessities, such as food, health, housing, etc. Since disaster relief provides basic necessities, we may expect paternalism to play an important role in influencing

donor decisions in that context.

#### **2.2.2.2 Self-targeting under imperfect information**

Programs designed to benefit a specific target group can be difficult to monitor and costly to administer if benefits are transferred through cash. In a targeted benefit transfer program, individuals are expected to identify themselves through publicly verifiable attributes such as income. Since everyone values cash, these programs must manage numerous applicants from outside the target population. Nicholas et al. [146] argue that in-kind transfers can help focus benefits in so far as the intended target group values the in-kind transfers more than others outside the group do. For example, poor or hungry people will place a higher value on receiving food than those who are better off. Government in-kind transfer programs force beneficiaries to endure certain “ordeals” to collect in-kind benefits with the goal of deterring those outside the target population (who supposedly place a lower value on the benefit). In this way, in-kind transfers can ensure that a greater portion of the benefits go to intended beneficiaries, a phenomenon known as *target efficiency* [146]. The ordeals are more effective at deterring “outsiders” if the benefits are given in-kind.

Designing an efficient transfer of in-kind benefits for a specific target population requires finding the right balance between their value to the target population and the participation cost. A significant majority of the target population should find the value of the benefits higher than the participation cost, while a significant majority of those outside the target population should find the value lower than the cost.

The “outsiders” can also include corrupt organizations and people involved in the distribution process. Sometimes government foreign aid is donated in-kind in the belief that officials and organizations in the recipient country will find the goods less attractive and harder to misappropriate than cash. For example, in an empirical study, Raschky et al. [160] find that existing corruption and the absence of rule of



law in the recipient country are positively correlated with a greater percentage of foreign aid being donated in-kind. Another study [37] shows that the percentage of tied donations<sup>3</sup> from multi-lateral donors decreases as governance improves in the recipient country.

Other types of donors are also concerned about corruption and abuse, and target efficiency is an important motivation for individual donors to give in-kind. If donors are not certain that most of their donation will serve final beneficiaries and make an impact, they are less willing to give. Because donating time (volunteering) or donating products helps ensure that the more of the donation is likely to actually reach the intended beneficiary, donors may choose to donate in-kind rather than cash.

Generally, NGOs act as agents to help beneficiaries on behalf of donors. NGOs use cash donations to provide goods and services to beneficiaries and to pay for overhead expenses (staff salaries, facilities and office expenses, etc.). Many donors fear that a significant portion of their cash donations may be used for the NGO's overhead expenses rather than to help the intended beneficiaries. Giving in-kind helps ensure that the donation will only be used to help beneficiaries and cannot be used for the NGO's overhead expenses. The challenge this naturally raises is that the NGO does need funds to cover its overhead expenses and to build its capacity to provide valuable services.

*Paternalism* and higher *target efficiency* motivate government and private donors to prefer in-kind giving, but these are not the only reasons private donors prefer to give in-kind. The philanthropy literature on why people volunteer, which we review in Section 2.2.3, provides additional insights into private donors' motivations for giving in-kind.

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<sup>3</sup>According to the OECD, tied aid includes official grants or loans that require recipient countries to procure goods and services from companies in the donor country or in a small group of specified countries.

### 2.2.3 Determinants of volunteering

The one area of in-kind giving that has received considerable attention in the literature is volunteering. In this section we review the literature on why people volunteer to help us better understand motivations for donating products. In fact, these two activities are quite closely linked. In many cases, product donation creates opportunities for volunteering such as collecting, sorting and packaging donated products.

In his review, Wilson [201] classifies research on volunteering into two perspectives: sociological and behavioral. The sociological perspective of volunteering describes donors as rational human beings and emphasizes the context of giving (education, income, social network, family status, etc.) as influencing individual decisions to volunteer, while behavioral theories emphasize individual motives, values and beliefs as the main factors influencing the choice to volunteer. Researchers [130, 79] have found that a desire to help others is one of the most frequently cited reasons for volunteering. Cnaan et al. [79] show that egoistic concerns such as satisfying personal social and psychological goals, also motivate volunteers. Researchers in social psychology have identified an inventory of individual motives for volunteering. Clary et al. [78], for example, identified six motives for volunteering:

**Values:** The volunteer expresses or acts on his or her personal values;

**Understanding:** The volunteer seeks “new learning experiences and the chance to exercise knowledge, skills and abilities”<sup>4</sup>;

**Enhancement:** The volunteer hopes to grow psychologically and improve self-esteem;

**Career:** The volunteer wishes to gain career related experience and skills;

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<sup>4</sup>Page 1518, Clary, E.G., et al., “Understanding and assessing the motivations of volunteers: a functional approach”, *Journal of personality and social psychology*, Vol. **74**, no. 6, pp 1516–1530, (1998)

**Social:** The volunteer hopes to strengthen social relationships with friends and important others;

**Protective:** The volunteer seeks to reduce negative feelings (e.g., guilt) about being more fortunate than others.

The differences between Clary et al.’s [78] motives for volunteering and Bekkers et al.’s [56] eight mechanisms that influence giving arise primarily because of the differences in the questions the two studies address. Bekkers et al. ask what factors affect individual giving, while Clary et al. focus on the motivations for volunteering. Bekkers et al. consider the broad category of mechanisms that can affect choices or actions, while Clary et al. employ a functional approach, which views motivations as causes of choices or actions. Neither study specifically addresses the question of how people choose between giving cash or giving goods or volunteering.

Using David et al.’s [176] conceptual model, *Awareness of need* and *Solicitation* mentioned by Bekkers et al. [56] can be characterized as “triggers” rather than motives for giving. Clary et al. do not include these triggers as volunteering motives. Although Bekkers et al. identify *altruism* as one of the eight determinants of giving, Clary et al. [78] do not include it as a motive for volunteering. However, empirical and experimental studies [84, 70] demonstrate strong relationships between altruism and Clary et al.’s six motives for volunteering.

Bekkers et al.’s *Cost and Benefit* and *Efficacy* do not appear in Clary et al.’s six motives for volunteering. This may in part be based on the nature of the questions Clary et al. are trying to answer. They work from the premise that “...volunteers (a) often actively seek out opportunities to help others; (b) may deliberate for considerable amounts of time about whether to volunteer, the extent of their involvement, and the degree to which particular activities fit with their own personal needs; and (c) may make a commitment to an ongoing helping relationship that may extend

over a considerable period of time and that may entail considerable personal costs of time, energy, and opportunity.”<sup>5</sup> The authors do not address the question of what motivates the individual to choose volunteering over other forms of helping. This may in part explain the absence of *Cost and Benefit* and *Efficacy* as volunteering does not cost money and poses little chance for fraud or abuse.

The same argument can be extended to other types of in-kind giving (e.g., used clothing donations or pro-bono services) which do not involve costs to participate and are more resistant to fraud and abuse. *Cost and Benefit* and *Efficacy* are important components of the decision of how to give, but may play a smaller role in the decision of whether to give.

Several papers [65, 87, 94, 69] in the economics literature consider the question of whether giving cash and donating time are substitutes or complements for each other. There is no clear consensus on the question and Andreoni [39] suggests that the answer depends on the assumptions made about donor’s preferences. If the donor’s emotional reward depends on total giving (i.e., total contributions of cash and time), then assuming the value of volunteering is lower than the wages one could earn in the same time, volunteering would be rare as donors could have a greater impact by working and donating the added wages instead of volunteering. However, volunteering is anything but rare in industrialized countries, especially in the U.S.. In 2011, 64.3 million Americans (more than one in four adults) volunteered through formal organizations. Andreoni [39] concludes volunteering must offer some independent emotional reward.

We find Andreoni’s “impure altruism” model overly restrictive for in-kind giving as donors may receive tangible economic benefits from in-kind giving along with emotional benefits. For example, Clary et al.’s model identifies *career* and *understanding*

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<sup>5</sup>page 1517, Clary, E.G. et al., “Understanding and assessing the motivations of volunteers: a functional approach”, *Journal of personality and social psychology*, **vol. 74**, no. 6, pp 1516 – 1530

as motives for volunteering. Volunteers may, for example, receive relevant professional experiences through volunteering, which can enhance their careers. Similarly, donating used personal and household items helps individuals dispose of excess belongings and provides tax benefits in the process. We argue that for in-kind giving, self interest motives may extend beyond the emotional benefits Andreoni suggests and donors may be motivated by both emotional and economic benefits from giving.

The decision to give in-kind as opposed to cash is a separate question from what motivates giving in general. Individual donors have few options when giving to a NGO. They can: (1) Give cash (2) Buy specific products and services to donate to the NGO; e.g. buy food specifically to donate to a food bank, or pay for the transportation of relief supplies, etc. (3) Give products that they already own, e.g., used clothing or (4) Give time (i.e., volunteer). The question is why donors choose in-kind giving options rather than cash. We also recognize that the donation of goods can be triggered by the need to resolve a situation involving excess goods rather than by the NGO's need for those goods. The decision to dispose of excess goods by donating them to charity does not raise the question of whether to donate cash or donate in-kind. Instead, that decision is focused on questions of which NGO to give to and, often, when it is best to make the donation.

#### **2.2.4 In-kind vs. cash giving for individual donors**

In this section we discuss factors that influence individual donors' decisions to donate goods and services. The assumption here is that these individuals are already motivated to give, but recognize that decision may be contingent on giving in-kind, i.e., we recognize that some donors may choose between giving in-kind or not giving at all while others may choose between giving in-kind and giving cash. The primary conundrum is "Why *do* donors give in-kind despite all the advertizing campaigns,

educational efforts and news articles arguing against in-kind donations?”. We summarize various donor motivations and explanations discussed in the literature and based on our own observations into four principal factors.

#### *2.2.4.1 Trust*

Donating to an NGO involves trust at many levels. Donors must trust the beneficiary to use the donation appropriately. For example, by giving nicotine patches rather than cash, the donors in Jacobsson et al.’s [93] study did not need to trust the beneficiaries not to use the donation to buy cigarettes. This form of trust is addressed in the literature under the rubric of Paternalism. Donors must trust the process to deliver the donation to the beneficiaries. For example, governments transfer benefits in-kind in part because they want to dissuade “outsiders” for taking advantage of the donation. This form of trust is addressed in the literature under the rubric of target efficiency. Finally, donors must trust the NGO itself to ensure donations are used for the intended purpose and are not diverted to cover overhead expenses or to support fund raising activities. This form of trust is addressed in the literature under the rubric of efficacy. In each case, donating goods and services reduces the level of trust involved.

#### *2.2.4.2 Engagement*

Engagement refers to the physical and social dimensions of charitable activities. Volunteering, for example, engages the donor physically in an activity he views as good or worthy. Olivola et al. [149] show that despite the long held view of physical discomfort as a deterrent, many donors actually prefer that charity work be physically demanding. The authors argue that people derive a sense of satisfaction and pride from hard-earned accomplishments such as completing a charity marathon. A phenomenon the authors refer to as “The Martyrdom Effect”. Volunteering is also often socially engaging in that it engages the donor together with a group in an activity

the group views as good or worthy. Clary et al. [78] identify the social dimension of engagement under the rubric of *Social*.

In-kind giving generally provides greater opportunities for donor engagement than giving cash. Organizing a community food or clothing drive helps bring the community together and physically engages its members in activities such as collecting, sorting and packing donations, providing transportation, etc. Giving goods to disaster relief creates opportunities for physical and social engagement, which may in part explain why individuals and community groups donate in-kind despite NGO's efforts to promote cash donations.

#### 2.2.4.3 *Directness*

Donors prefer to help beneficiaries directly. We argue that the emotional benefits of giving diminish with the distance or separation in the usual sense of proximity, in the sense of time and in the sense of the intermediaries and transformations between the act of giving and the beneficiary's receipt of the gift. We refer to this phenomenon as *directness* or *emotional engagement*. Volunteering at a local soup kitchen is a very direct way to give. The donor is present and personally involved in transferring the gift to the beneficiary. Purchasing food and donating it to a soup kitchen is less direct: the donor is not present when the beneficiary receives the gift, but the gift itself serves as a clear connection between the act of donation and its receipt. Donating cash to a food bank is still less direct. Not only is the act of donating removed from the receipt of the gift, but the cash injects yet another degree of distance: The cash the donor gave is only abstractly connected to the gift the beneficiary received. Whom exactly did the gift benefit and what exactly did the beneficiary receive from the donor's gift? The enormous distance between the act of making a small cash donation and the benefits that gift delivers to the final beneficiary strains the imagination of most individual donors.

The desire to give more directly is also related to issues of *trust* and *engagement*. By giving more directly, the donor has a greater assurance that the gift will go to the beneficiary and a better sense of exactly what the gift will be. But we use the word “directness” to refer to the effects on the emotional benefits of giving. Donating more directly increases trust and engagement (e.g., volunteering at local soup kitchen), but increasing trust and engagement does not necessarily increase directness. Even though it may be more effective and engaging to organize a fund raising event and donate the (cash) proceeds to a trustworthy NGO to purchase specific supplies for relief efforts after a specific disaster, it will not be as direct and will not provide the same emotional satisfaction as giving a blanket or the shirt off one’s back.

#### *2.2.4.4 Economic*

Donors want to enjoy the tangible and intangible benefits of giving at minimum cost. Donating used personal items, previously purchased packaged food, etc. allows an individual to contribute without incurring any specific additional cash expense. In fact, individuals can enjoy tax benefits from donating goods to registered NGOs in the U.S.. And many do: The IRS reports [138] that over 7 million people in the U.S. itemized deductions for in-kind donations totaling \$ 34.9 billion in 2010. Although cash donations are eligible for tax deduction as well, in-kind donations do not require a cash outlay and can transform items for which the donor no longer has a use into tax deductions.

### ***2.3 Corporate or business giving in the U.S.***

Most Fortune 500 companies have philanthropic initiatives and mechanisms in place to donate to NGOs either directly or via a corporate foundation. According to Giving USA [150], corporations donated a total of \$16.18 billion or nearly 5.5% of the total giving of \$305 billion in the U.S. in 2011. Based on a survey [20] of 213 companies, including 62 of the Fortune 100 companies, the Committee Encouraging Corporate



Philanthropy (CECP) estimated total giving of \$15.72 billion in cash and product donations in that same year. According to CECP, nearly \$10.12 billion of the total \$15.72 billion was donated in-kind. Although there are inconsistencies in the various estimates, it is clear that in-kind giving represents a substantial segment of corporate donations in the U.S.. The majority of corporate donations are made to NGOs both domestically and internationally. In this section, we discuss why corporations donate to NGOs and why they choose to donate in-kind.

In sections 2.3.1 and 2.3.2, we review the evolution of and key debates around corporate philanthropy in the U.S.. The history and evolution of corporate philanthropic practices shape the current state of corporate giving to NGOs and establish the paradigm for corporate social responsibility (CSR) that underlies corporate donation practices.

### **2.3.1 Corporate giving in the U.S.: a historical perspective**

Ireland et al. [124] define *corporate philanthropy* as a transfer of corporate resources to recipients for charitable purposes at or below market prices. Although corporate giving to NGOs is a common practice today, before 1953 it was legally limited to donations that could be justified as business related expenses (see Fry et al. [105] or Sharfman [173] for excellent discussions of the history of corporate philanthropy in the U.S.). Private giving was primarily an individual act, though privately owned businesses did donate to charity. For corporations the question was whether managers had the right to donate stockholders' assets in the corporation.

In this section, we summarize Sharfman's [173] history of corporate philanthropy in the U.S.. The historical perspective of corporate philanthropy in the U.S. helps us to understand important debates and issues that shaped current corporate philanthropic practices and motivations for giving to NGOs in the U.S..

There were few corporations in the U.S. in the nineteenth century and legitimate

corporate acts were defined by contractual agreements or founding charters. Donating to charity was not generally deemed to be a legitimate corporate act unless the donation advanced some identifiable business interest. The beginning of corporate philanthropy in the U.S. can be traced back to the late nineteenth century when a few manufacturing companies (e.g., the Pullman Company) started to fund local schools, libraries and other facilities in company towns. The goal was to attract workers to often remote manufacturing sites and such philanthropic activities were regarded as indirect business related expenses.

By the end of nineteenth century several court rulings established the right of corporations to make charitable contributions as long as they supported business objectives. The two most definitive rulings were 1896 *Steinway vs. Steinway & Sons, et al.* [9] and 1899 *Main vs. C.B. & Q. Railroad* [173]. *Steinway & Sons* corporate trustees contributed funds to build homes, churches and schools for *Steinway* employees and *C.B. & Q. Railroad* contributed to a benefit society for its employees. The court in these cases ruled the expenses were “related” to company activities and hence within the incidental power of the firm.

As industrialization progressed in the early twentieth century (1900-1915), company towns were largely replaced by cities with a new class of urban poor. During this period, anti-business sentiment grew, fueled by journalists, including *Ida Tarbell*, known as “muckrakers”, who wrote about the injustices and tragedies that accompanied industrialization. Many new charities developed in the cities to help the poor and corporations were pressured to support them. The crises of World War I and the Great Depression added to the pressure on businesses to help meet social needs in their communities.

Many companies started to donate to various charities in larger cities and the practice became more common in the 1920s. In 1932, the Internal Revenue Service (IRS) loosened its guidelines regarding donations that could be deducted as expenses

and in 1935 Congress approved legislation allowing corporations to deduct charitable donations of up to 5% of pretax income. The question of whether corporations were allowed to make contributions unrelated to the business was not legally resolved until 1953, when a group of stockholders challenged a \$1500 donation managers at A. P. Smith Manufacturing Co. made to Princeton University for general use and without any obvious financial benefit to the company. The New Jersey Supreme Court ruled in favor of the company and, by refusing to hear the case, the U.S. Supreme Court upheld the decision without commenting on the legality of the donation.

Although the legal challenge for corporate philanthropy was resolved in 1953, the debate about whether companies have a responsibility to address social needs continued.

### **2.3.2 The evolution of corporate social responsibility**

Corporate Social Responsibility (CSR) concepts have influenced corporate philanthropy over the last decades (mainly since 1970). In a 1970 New York Times Magazine article [103], Milton Friedman suggested that the social responsibility of a corporation is to increase profits, individuals (i.e., shareholders and employees) should make philanthropic decisions about their own assets. He argued that corporate managers should not make charitable contributions with shareholders' money. Friedman claimed the responsibility of the corporate executive

...is to conduct the business in accordance with their (owners') desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.<sup>6</sup>

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<sup>6</sup>Friedman, M., "The Social Responsibility of Business is to Increase Its Profits", *The New York Times Magazine*, September 13, 1970

The debate Friedman started in 1970 has waned as more and more companies have accepted the concept of corporate social responsibility. Most academics and the preponderance of public opinion agrees that companies do have a responsibility to society as well as to customers, employees and shareholders. The concept of corporate social responsibility has become increasingly comprehensive. In one of the seminal articles of modern CSR, Carroll [71] defined corporate social responsibility as encompassing

... the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time.<sup>7</sup>

According to Carroll [71], a company's philanthropic activities fall under discretionary expectations: the business does not have "responsibility" per se, but society does expect the company to contribute to social issues. In a subsequent article, Carroll [72] presented a conceptual pyramid of corporate social responsibility with philanthropic responsibilities at the top as "icing on the cake", something that is highly desired and prized and perhaps even expected but not, like the other dimensions of corporate social responsibility (i.e. economic, legal and ethical), required.

In his review of the evolution of CSR theories, Lee [137] claims that since the 1980's the concept of CSR has evolved into an integral part of business strategy specifically related to a company's reputation and stakeholder management. Freeman's [102] stakeholder management theory suggests a new framework for understanding corporate goals in which the central issue is the survival of the company, which depends not only on its shareholders but also on various other stakeholders such as customers, employees, suppliers, the local community, government, non-profit groups, etc. In the 1980s, management researchers (led by Clarkson [77] and Jones [126]) conceptualized CSR from a stakeholder management perspective, replacing the vague notion of social

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<sup>7</sup>Page 500, Carroll, A.B., "A three-dimensional conceptual model of corporate performance", *Academy of management review* (1979)

expectations with the more actionable concept of stakeholder concerns.

In this framework, corporate philanthropy is viewed as a useful instrument for managing stakeholder relations.

In the twenty-first century, the concept of corporate social responsibility has become embedded in the larger framework of “Sustainability” widely adopted among Fortune 500 companies. Sustainability addresses three aspects of corporate responsibility: Economic, Environmental and Social. The 1987 World Commission on Environment and Development [66] defines sustainability as

...development that meets the needs of the present without compromising the ability of future generations to meet their needs.<sup>8</sup>

Most of the management and operations literature has conceptualized sustainability as addressing the interactions among a company’s environmental, economic and social goals. Kiron et al.’s [131] 2012 global survey of 4,000 managers from 113 countries suggests that sustainability related strategies are now a competitive necessity for companies. A study of Fortune Global 500 companies’ sustainability reports [202] reveals that nearly 67% of the companies produced some form of sustainability report during 2009 and 2010 and that most focused on energy efficiency and environmental stewardship in business activities. In most cases, corporate philanthropic activities and their social impacts are not measured or monitored with the same rigor as economic and environmental performance.

Porter et al. [155] argue that most companies fail to integrate philanthropy within their business strategy and only use it to improve their public image and reputation. The authors argue that if corporate philanthropy is done on an unfocused, piecemeal basis and comes at the expense of economic benefits for the company, then

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<sup>8</sup>Page 500, World Commission on Environment and Development., *Report of the World Commission on Environment and Development: Our Common Future*

Friedman’s arguments [103] are valid and company managers should not make philanthropic decisions with shareholders’ assets. If companies can simultaneously achieve both economic and social benefits, corporate philanthropy can be beneficial for the company and for society as a whole.

### **2.3.3 Corporate giving motivations**

As we argued in Section 2.2, individual giving is motivated by both altruistic and egoistic concerns. Corporations, however, are legal entities organized to generate profits for investors and we argue that legal entities cannot be motivated by altruism, i.e., a selfless regard of concern for others’ welfare. This is the core of Friedman’s [103] argument against corporate philanthropy. If corporate giving is purely altruistic, individuals investors are better off making philanthropic decisions themselves as they derive personal psychological and social benefits from giving that cannot accrue to a legal entity.

From the perspective of stakeholder management theory, companies give primarily to satisfy various stakeholders’ expectations. Companies approach corporate philanthropy along a spectrum that ranges from reactive, in which philanthropy is employed as a bandaid after damage has already been done, to pro-active, in which the company builds understanding of and credibility with key (potential) critics in an effort to avoid surprises and better manage crises. Companies also use philanthropy to promote their brands and engage employees and customers through initiatives such as employee volunteering, work place giving, cause related marketing, etc. Some companies also differentiate themselves based on philanthropic or social values such as Patagonia, Newman’s Own, Tom’s Shoes and others. In sections 2.3.3.1 – 2.3.3.4 we discuss specific ways companies use philanthropy.

### 2.3.3.1 *Managing corporate reputation*

Corporate donations are made to manage the expectations of various external stakeholders, such as non-profit activist groups, NGOs, government, local communities, etc. Pro-active corporations not only comply with the law of the land, but also use corporate philanthropy as a tool to cultivate what has come to be called “social license” by building relations with and gaining acceptance from various stakeholders in the community [112].

Smith [177] suggests companies also donate to create a reserve of “goodwill” and to improve their public image in a proactive way. Brammer et al. [63] did find empirical evidence among large U.K. companies that suggests companies with higher philanthropic expenditures have better reputations, but the evidence is not conclusive and varies by industry. The authors find that corporate philanthropic giving has a greater effect on companies’ reputations in industries that face public criticism such as the alcohol and tobacco industries. Brammer et al.’s finding is consistent with Williams et al.’s study [200] that argues that philanthropic contributions may help companies protect against negative stakeholder perceptions.

Not giving can sometimes harm a donor’s reputation. We are not aware of any study in corporate giving that specifically explores the effects of not giving, but several studies (see for examples [35, 58]) suggest that not giving can harm an individual’s reputation, especially when donations are announced in public or are directly observable.

Just as *reputation* is such an important driver of individual giving that donors are willing to pay to ensure that others recognize their contributions, Porter et al. [155] point out that the tobacco company Philip Morris made charitable contributions of \$75 million in 1999 and then launched a \$100 million advertising campaign to publicize those donations. Clearly *reputation* is an important driver of corporate donations.

### *2.3.3.2 Brand promotion*

Companies also use philanthropic activities to differentiate themselves from the competition and to promote customer loyalty. Publicizing philanthropic contributions helps demonstrate social values to potential customers, employees and other stakeholders. This type of brand promotion requires focused philanthropic activities in carefully chosen areas. Companies like Ben & Jerry's, Newman's Own and Patagonia, for example, have distinguished themselves from the competition through long term commitments to various social and environmental issues.

Since the 1980's companies have increasingly used philanthropy to boost sales through various cause related marketing efforts in which the company ties a certain percentage of the revenues to a charitable cause (for a good review of cause related marketing see Varadarajan et al. [193]). In recent years, many companies have participated in high profile cause related marketing campaigns such as Bono's (Product) Red campaign to fight HIV/AIDS in Africa, the pink ribbon campaign for research and treatment for breast cancer, etc. Some companies have embedded corporate philanthropy into their corporate mission statements. "Tom's Shoes", which donates one pair of shoes for every pair it sells, has made corporate philanthropy an integral part of its business. Started in 2006 with annual sales of 10,000 pairs of shoes, the company reports [31] having sold over 10 million pairs of shoes by 2013 and donated an equal number in 60 countries.

### *2.3.3.3 Employee engagement*

Motivating employees is often cited (see, for example, [60, 155]) as one of the major reasons companies engage in philanthropic activities. Historically corporate philanthropy (see section 2.3.1 for details) was intended to promote employee welfare by funding schools, hospitals and other social services in company towns. Today employees are no longer the beneficiaries of company contributions, instead these



contributions are intended to provide employees with opportunities to participate in philanthropic activities that help others.

A 2011 Forbes survey [4] of over 300 corporate executives from large companies (with annual revenues of at least \$500 million) found employee motivation was most frequently mentioned as a major objective of giving programs. Employee volunteering is a popular program for many large companies in the U.S.. According to a 2011 CECP survey [20] of 186 companies, 85% reported having a formal domestic (U.S.) employee volunteering program, while 47% reported having at least one formal international volunteering program.

#### *2.3.3.4 Strategic benefits*

Porter et al. [155] suggest that companies can use philanthropy to “improve their competitive context - the quality of business environment in the location or locations where they operate.” They argue that strategic use of corporate philanthropy can create both economic benefit for the company and social impact. A good example of strategic corporate giving is Cisco’s networking academy, which trains network administrators in many developing countries simultaneously creating jobs and alleviating potential constraints on growth in Cisco’s markets.

Many pharmaceutical companies have developed “signature giving programs” such as Pfizer’s Zithromax<sup>®</sup> donation program to fight blinding Trachoma (see Pfizer’s report on this initiative [5]) or Merck and Glaxo SmithKline’s joint program to eliminate river blindness and lymphatic filariasis in African countries (for more on these programs see [3]). Such targeted corporate philanthropic programs help millions of people in need while simultaneously helping the company establish critical global relationships with international organizations (e.g., World Health Organization) and national health organizations (e.g., national Ministries of Health) in developing countries. The companies work with non-profit partners and local government agencies to facilitate

large scale drug distribution. These relationships, infrastructure development, local experience and knowledge of local health care needs all help donor companies' long term business growth in these markets.

These benefits motivate companies to participate in philanthropy. In Section 2.3.4 we explore why companies choose in-kind giving.

### **2.3.4 Cash vs. in-kind corporate giving**

According to CECF's annual giving report, "Giving in Numbers, 2012" [20], nearly 64% of total corporate giving by large companies, valued at over \$10 billion dollars, was given in-kind in 2011 and nearly 71% of that was donated in the form of products. In this section we explore why companies choose to donate in-kind and especially why they choose to donate products.

#### *2.3.4.1 Cost and benefit*

In-kind giving of products, services or employee volunteering are often the most cost effective ways for companies to give to NGOs. In-kind donations do not require additional cash resources and instead can utilize companies' products, services and people. An in-kind donation is perceived by the public at its full market value, but only affects the company's financial performance based on its cost to produce or deliver. For example, a company with a gross margin of 50% can donate \$100 worth of goods at a cost of \$50. A \$100 cash donation, on the other hand, costs the company \$100. In the U.S., in-kind donations are also eligible for enhanced tax benefits. See Table 2 for a detailed example.

Per U.S. tax code IRC 170(e)(3), companies can benefit from enhanced tax deductions for a donation of property (donations of professional services or employee time do not qualify for enhanced deduction) to a public charity or private operating foundation that is an IRS 501(c)(3) organization so long as the donation:

- Is used "solely for the care of the ill, the needy, or infants, and in a manner

related to the donee’s exempt purpose”<sup>9</sup>;

- Is not “transferred by the donee in exchange for money, other property, or services”<sup>10</sup>; and
- Satisfies “certain requirements of the Federal Food, Drug and Cosmetic Act”<sup>11</sup>.

Contributions that meet these requirements are eligible for tax deductions that exceed the basis or cost of the goods, up to twice the basis or the basis plus one-half of the “gross margin” or difference between the market value and the cost, whichever is smaller. To be clear, qualifying donations generate tax deductions, not tax credits. They do not directly reduce the taxes owed, they reduce the income on which tax obligations are calculated. Their final impact on net operating profits after taxes (NOPAT) will depend on the company’s tax rate.

**Table 2:** Example of inventory donation vs. cash donation

	Inventory donation	Cash donation
1. Fair Market Value	\$100	\$100
2. Basis (Cost Of Goods Sold)	\$50	\$100
3. Gross Margin (1-2)	\$50	\$0
4. 2 X Basis	\$100	N.A.
5. Basis + 1/2 Gross Margin	\$75	N.A.
6. Tax deductible amount	\$75	\$100
7. Tax deduction (at 30% tax rate)	\$22.5	\$30
8. Net cost to the company (2-7)	\$27.5	\$70

The example in Table 2 illustrates how, by donating products, a company can enjoy the publicity and other social benefits associated with a \$100 donation at a fraction of the cost. The effects of the tax benefits are greatest for high value, high margin products, such as pharmaceuticals, health care supplies, software, etc. According to the 2012 CECP Giving Report [20], 72% of the products donated by the survey participant companies were pharmaceutical products.

<sup>9</sup>Page 4, [164]

<sup>10</sup>Page 4, [164]

<sup>11</sup>Page 4, [164]

#### *2.3.4.2 Availability of surplus inventories*

One increasingly common form of corporate giving is donations of surplus inventories. Companies do not always first decide to give and then choose surplus inventory donation as the way to give. A company's decision to give can be triggered by the need to dispose of surplus inventories in a manner that is cost efficient and does not upset shareholders or other stakeholders (i.e., is socially and environmentally responsible).

As explained on CFO.com [178], tax benefits, disposal costs and other factors can make donating surplus inventories financially more attractive than other options, including return or reuse, disposal and liquidation. A 2012 study by Indiana University [27] on product philanthropy and a 2013 article [125] on surplus inventory donation reach similar conclusions.

Financial incentives for surplus inventory donation can also encourage opportunistic “dumping” of unsaleable inventories to events like large scale disaster relief. Donating “dead” inventories to disaster relief helps managers resolve obsolete inventory issues without upsetting shareholders. Donating obsolete inventories to long term social issues is harder for managers to justify, especially if the issues are not clearly aligned with a larger corporate strategy.

#### *2.3.4.3 Employee engagement*

Donating company products and services for charitable purposes can help improve employee morale. Employees may find their work more meaningful when the products of their efforts help fulfill social needs. In-kind donation also creates opportunities for companies to organize employee volunteering events. While cash donations and employee matching grants can improve employee morale, volunteering opportunities tied to the company's donations of products and services create a more direct and physically and socially engaging experience for employees.

#### 2.3.4.4 *Visibility*

The tangible nature of the in-kind giving can help a company attract greater media attention to its philanthropic efforts and its brands. For example, P&G sends the mobile laundromat “Tide Loads of Hope” to disaster affected areas in the U.S. to promote the brand and demonstrate the company’s commitment to the affected communities.

Donating products generates positive publicity both when the products are donated and when they are distributed to beneficiaries. For example, according to a 2010 CNBC news article [165], the sunglass maker Oakley received \$41 million worth of media exposure for their donation of 35 pairs of special sunglasses to the Chilean miners to protect their eyes after they were rescued from the mine.

Companies are increasingly giving in-kind and, for the reasons presented here, that trend is likely to continue.

### ***2.4 NGO motivations for accepting in-kind donations***

The CECF Giving Report [30] estimates that in 2012, U.S. companies made nearly \$10 billion in qualifying in-kind donations, each of which must have been accepted by a 501(c)(3) organization. Although NGOs prefer cash donations, it is easy to understand why they accept appropriate in-kind donations from companies and individual donors. Not all in-kind donations, however, are appropriate. We wish to understand what motivates NGOs to accept in-kind donations that are less than appropriate. We do not address here the more general question of whether NGOs should accept in-kind donations at all. Nor do we address the more specific question of whether a specific NGO should accept a given in-kind donation offer. Here, we address the motivations behind NGOs’ decisions to accept in-kind donation offers, especially the motivations for accepting those offers that fall into the gray area in terms of appropriateness.

We know of no published research that explores NGO motivations for accepting

billions of dollars worth of corporate in-kind donations every year while publicly advocating for cash donations. In order to understand and document the process and the NGOs' motivations, we engaged with several national and international NGOs over the course of our research and interviewed many NGO professionals involved with in-kind fund raising and the distribution of in-kind donations. We also conducted a formal survey of 34 NGO professionals managing in-kind donations for 30 NGOs that collectively accept over \$1.5 billion worth of in-kind donations annually (See Appendix A for survey details). Sections 2.4.1 to 2.4.4 summarize our findings.

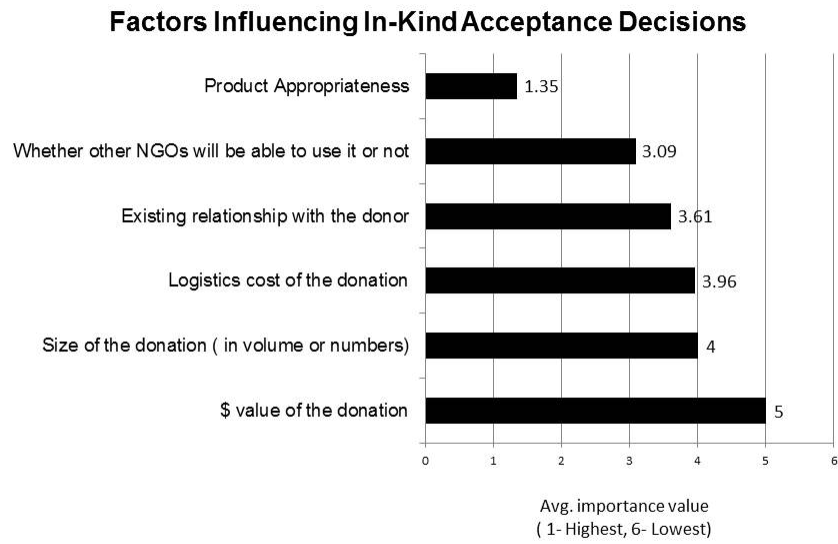
### **2.4.1 To supplement declining cash donations**

With the increased number of NGOs in the U.S., competition for donor dollars is greater than ever. According to the Urban Institute's National Center for Charitable Statistics [22], the number of registered public charities (i.e., 501(c)(3) organizations) increased by 46% between 2000 and 2010 to nearly 980,000. Giving USA [188] estimates<sup>12</sup> that total annual giving by U.S. donors increased by only 1%, from \$ 306 billion to \$ 308 billion (in inflation adjusted dollars) over that same period. And, as we point out in Chapter 1, corporations are donating an increasing share of what they give in-kind rather than in cash and grants.

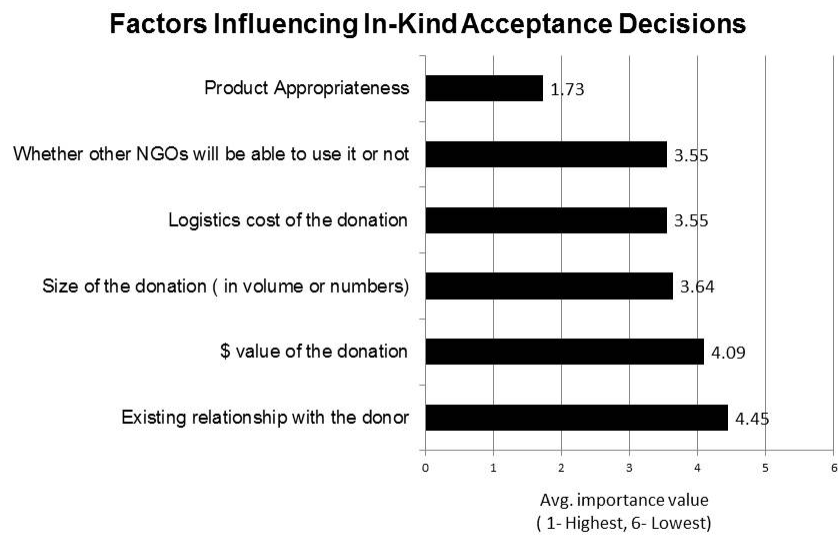
With increased competition for cash donations and more donors giving in-kind, NGOs are more inclined to utilize in-kind donations to supplement their cash resources. NGOs generally sell in-kind donations from individual donors and use donated goods from corporate donors for various program activities. We discuss how NGOs utilize in-kind donations in Chapter 3.

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<sup>12</sup>Giving USA uses data from various sources, including the IRS, CECP and others, to estimate total giving (both cash and in-kind) in the U.S.



**Figure 3:** Responses from NGOs that receive 70% or more of their in-kind donations from original donors



**Figure 4:** Responses from NGOs that receive less than 70% of their in-kind donations from original donors

### 2.4.2 Donor relationship

Accepting in-kind donations is important for NGOs to maintain their relationships with corporate donors. Rejecting a donation offer can jeopardize the relationship with the donor and put future donations, including cash donations, at risk. Our survey of NGO professionals indicates the importance of donor relationships in deciding which donation offers to accept. To understand the discussion, it is important to define various NGO and donor roles in the distribution of corporate in-kind donations, which we discuss in Chapter 3.

The 2009 AERDO<sup>13</sup> Interagency Gifts in Kind (GIK) Standard [14] identifies and defines four key categories of entities involved in GIK distribution: *Original donor*, *Final beneficiary*, *End-use organization* and *Intermediary*. We adapt these definitions and use them to clarify the different motivations of the different kinds of NGOs.

**Original Donor:** *Original donor refers to a corporation, individual or community group that produced or acquired a product and donated it to a charitable organization.*

An original donor is the entity responsible for transferring a product from the private or commercial realm to the charitable or non-profit realm. We use the term to distinguish original donors from NGOs that pass along or donate to other NGOs. An original donor is generally not an NGO.

**Final Beneficiary:** *Final beneficiary refers to an individual or family that ultimately receives and uses or benefits from the donation.*

Ideally, final beneficiaries are the target population served by the last NGO in the donation chain. For example, final beneficiaries for donated food through food banks are the people who receive the donations at a local food pantry or

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<sup>13</sup>A network of Christian humanitarian organizations working to eliminate poverty, currently known as Accord



soup kitchen. Similarly, final beneficiaries for in-kind donations to the Salvation Army are the elderly people in the community served by the adult rehabilitation centers supported by the Salvation Army’s thrift stores in the U.S. [7].

**End-use organization:** *End-use organization refers to an NGO that either uses a donation for its own operations, converts it to cash or distributes it to final beneficiaries.*

An end-use organization is the last NGO in the donation chain. For example, local food pantries and soup kitchens that distribute the food to final beneficiaries either as prepared meals or as affordable groceries are the end-use organizations for food donated to food banks.

**Intermediary:** *Intermediary refers to an NGO that receives a donation and passes it on to other NGOs.*

Intermediaries receive donations from original donors or other intermediaries and donate them to either an end-use organization or another intermediary.

We argue that some NGOs, in particular those that receive significant in-kind donations directly from original donors rather than through intermediaries, are motivated to accept those donations at least in part by their desire to maintain strong relationships with the donors. Our survey supports this claim. In that survey, NGOs that receive 70% or more of their in-kind donations directly from *original donors* identify donor relationship as the third most important factor (see Figure 3) while NGOs that receive less than 70% of their donations from *original donors* identify donor relationship as the last consideration (see Figure 4).

### 2.4.3 Improving financial metrics

Donors often assess NGOs using financial metrics, especially total revenues (i.e., total donations received) and financial efficiency [166] (i.e., the percentage of revenues

that goes to overhead or non-program related expenses)<sup>14</sup>. An NGO’s total revenues indicate its size and significance, while its financial efficiency indicates how well the NGO uses the monies entrusted to it. Most NGOs in the U.S. signal their financial efficiency through statements such as “ $x$  cents of every dollar goes directly to help ...”.

We argue that NGOs are motivated to accept in-kind donations in order to improve financial metrics, in particular to increase revenues and improve financial efficiency. Because of the relatively low overhead expenses associated with in-kind donations, high value in-kind donations increase total revenues without significantly increasing overhead costs, thereby increasing the organization’s financial efficiency. In other words, by accepting high value in-kind donations, an NGO increases its revenues and so its perceived importance and can use more of its cash donations for overhead expenses such as fund raising, administrative salaries, etc. without reducing its financial efficiency.

As we discussed in Section 2.3.4.1, most corporate donations are high value, high margin products. We argue that many NGOs may accept less than appropriate high value in-kind donations to help improve their financial metrics.

Although most of the NGO participants in our survey rank the “Financial value” of the donation as one of the least important factors in deciding which donations to accept, they also list “Valuation” of in-kind donations as one of the most significant operational challenges associated with in-kind donations (see Appendix B). If the financial value of in-kind donations is truly not important, then why does “valuation” of those donation pose such a significant challenge? Since the donor’s valuation and the NGO’s valuation of a donation are separate for tax purposes, NGOs can simply attribute a low value to the donation: under-valuing a donation poses fewer risks than

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<sup>14</sup>There are many definitions of financial efficiency. While they differ in details, they all generally measure the percentage of total donations that are directly used to advance the cause, i.e., excluding payments for fund raising activities, office expenses and administrative salaries.

over-valuing it. Several Forbes articles [48, 47] and a 2009 report from the American Institute of Philanthropy [15] highlight examples of NGOs over-valuing corporate in-kind donations, specifically pharmaceutical product donations. We return to this issue of “valuation” in Chapter 4.

#### **2.4.4 Leveraging in-kind donations as matching grants**

Many government funded projects require NGOs to contribute a certain percentage of the total budget in the form “matching grants” from other donors. NGOs often use corporate in-kind donations to meet these requirements while saving their cash resources to pay for overhead and other projects. One possible motivation for an NGO to accept less than appropriate in-kind donation offers then is to help it win other (cash) grants.

## CHAPTER III

### IN-KIND DONATION DISTRIBUTION CHANNELS

#### *3.1 Introduction*

In order to prevent inappropriate in-kind donations in disaster response, it is important to understand various sources (i.e., donor groups) and the delivery channels these donations follow. In a recent 2012 article Holguin et al. [117] identified this topic, which they described as the “material convergence” problem, a major gap in the humanitarian logistics research. We focus on in-kind donations from private donors (i.e. individuals and community groups, and corporate donors) in this chapter and rest of the thesis.

For domestic disaster response, the U.S. government’s in-kind donations are targeted and well-managed. For international disaster relief government in-kind donations (from all donor countries), though generally valuable but can be challenging to coordinate and difficult to distribute efficiently. For example, according to United Nations Office of Coordination of Humanitarian Affairs (OCHA’s) financial tracking services [1], after 2010 Haiti earthquake 47 countries sent in-kind donations of goods, personnel and military assets to help the Haitian government. The proper management of these resources are challenging, however, we do not discuss them within the scope of this thesis.

We describe the flow of unsolicited donations in disaster relief by first identifying the usual channels these donations follow in the non-disaster context. We use the concept of channels to describe how in-kind donations from private donors reaches final beneficiaries or the NGO projects that use them both in disaster and non-disaster contexts. The literature on channels first appeared in marketing literature

in 1950s (See Alderson [34]). The early research on marketing channels focused on identifying various functions provided by marketing channels and explaining why these functions were important. After the early functional approach of understanding channels, research has focus to understand the organizations that make up the channel and the impact of their interactions on the overall success of the channel [111].

Research in marketing channels identifies three important areas of managerial decision that are crucial to the functioning of the channel. These are: 1. Structure of the channel (members that make up the channel), 2. Governance of the channel (framework that guides coordination and resolution of conflicts) and 3. Relationship management (norms of daily interactions that shape the environment of a channel) [38]. We primarily focused on explaining the structure of in-kind donation channels used by NGOs and donors in this chapter.

Our main focus in this thesis is in-kind donation management in disaster relief. To fully understand these donations and the challenges they create, we must better understand the flow of in-kind donations in non-disaster contexts. Experiences and expectations established in the non-disaster context shape our responses to disasters. This chapter describes the usual or non-disaster channels for in-kind donations in Sections 3.2 – 3.3, to establish the context in which unsolicited in-kind donations arise when a disaster occurs. In Section 3.4, we describe the channels used by Individual donors and business donors to send donations to NGOs in disaster relief context.

### ***3.2 NGO operating models for managing in-kind donations***

In-kind donations are not unique to disaster giving. In fact, it is a common way for private donors to support NGOs. Every year people and companies donate nearly \$ 18 billion worth of products in the U.S. to NGOs working in various humanitarian and social issues domestically and internationally. Generally, individuals and families donate used personal and household items, whereas companies donate mostly

unused inventories to NGOs. In fact in-kind giving from private donors (by \$ value) has increased over time while the value of overall donations has remained relatively constant. NGOs have created primarily two different operating models to use in-kind donations: one is *Resale*, where NGOs sale donated items to convert them to cash and the other is *Direct-use* model where donations are used by the recipient NGO or their beneficiaries. In this section, we describe how NGOs use in-kind donations and distribute them in non-disaster context.

NGOs rely on one or both of these models, employing the *Resale* model primarily for individual donations and the *Direct-use* model for corporate donations of inventories, equipment and other supplies which donors do not allow to resale both for tax deduction and commercial purposes. If corporate donations are resold that would render the donation ineligible for enhanced tax deductions (according to IRC 170(e)(3), as we discussed in details in chapter 2) and would mean the goods may appear in the commercial market at a reduced cost and compete with the company's own sales channels. For individual donors donating used personal and household items to NGOs, these concerns do not apply and most NGOs therefore sell those donations.

The difference in donor and donation type, tax laws and the other concerns (especially for business donors) have primarily divided the way NGOs use in-kind donations. In most cases NGOs employing *Resale* model are different than the NGOs using *Direct-use* model. The *Resale* model is more suitable for NGOs working in various domestic issues in the U.S., such as the GoodWill Industries, American Kidney Fund and others. NGOs who use *Direct-use* model are often more international focused and many of them have both disaster relief and development programs.

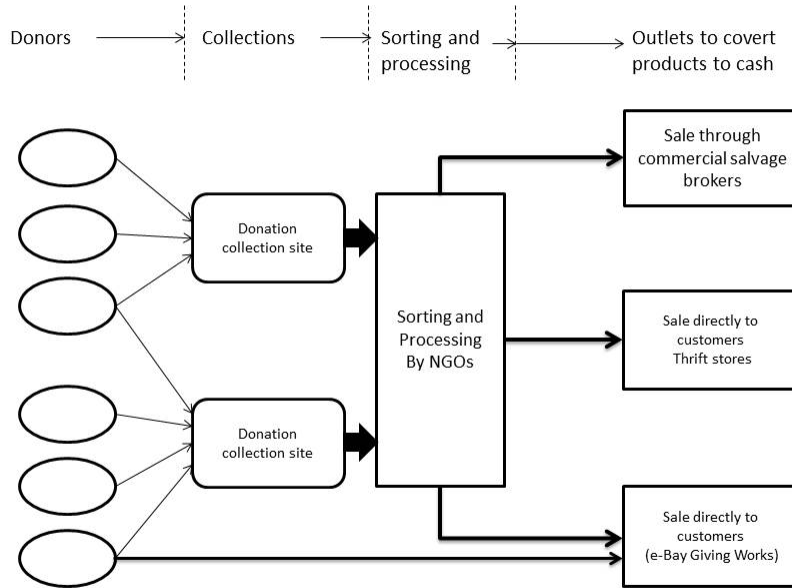
### 3.2.1 Resale

Individuals and community groups donate used personal and household items to NGOs on a regular basis. According to the IRS report on *Individual Noncash Contributions, 2010* [138], 7.9 million individual tax payers (who filed form 8283) claimed deductions of nearly \$ 12 billion in 2010 for donations of used clothing, electronics and other household items. This estimate does not include donations from millions of tax payers who either did not claim a tax deduction or did not file form 8283 (donations less than \$ 500). According to the same IRS report [138], two largest categories of individual donation are clothing (78%) and household items (34%) for tax payers who itemized deduction on the form 8283.

NGOs convert most individual donations of personal items, such as clothing, electronics, household items, vehicles, etc., to cash by selling them. National Resale Professionals [148] estimates that there are over 25,000 thrift stores in the United States, many of which are run by various local or national charities. Goodwill Industries, for example, operates nearly 2,700 retail stores across U.S. and Canada, which generated \$ 2.59 billion in sales to support social services and job training programs. Nearly 79 million people in the U.S. and Canada donated to Goodwill Industries (according to [26]) in 2011, which is almost 10 times higher than the number of U.S. tax payers who submitted form 8283. Similarly, the Salvation Army's 1350 family stores in the U.S. generated \$ 577 million in sales in 2011 [28].

Once donated for resale, NGOs employ both or either of the two mechanisms to covert these donations to cash :

- Sale directly to customers ( through thrift stores, e-commerce websites)
- Sale it to commercial brokers



**Figure 5:** Resale model to covert in-kind donations to cash

NGOs collect these donation items either by themselves ( i.e. donation collection sites, thrift stores) or through contractors. After being collected, donated items go through a sorting process to determine the best way to monetize the donation. The choices are either to sale individual items through thrift stores or e-commerce or auction websites, or sale it through commercial salvage brokers. The choice depends on the question whether the likely selling price support the added handling costs of running the item through a thrift shop, or is it more economical to simply sell it off in bulk at a lower price, but with less investment. It also depends on item categories too. For example, NGOs receive donation of used vehicles, boats and other larger items which are not usually sold at thrift stores . These types of items are directly sold through commercial salvage brokers. If the decision is to resale a donated item to customers, the item goes to the NGO run thrift stores. Some for-profit thrift stores (e.g., Savers, Unique Thrift Stores, etc.) also purchase gently used items from NGOs.

Beside the traditional brick and mortar thrift stores, many NGOs also operate



their web based thrift stores to reach out to more customers. These web-based NGO thrift stores sale like any other e-commerce sites with a charitable purpose. NGOs and their individual donors can also sale used items (for donation) through on-line auctions sites, such as e-Bay Giving Works. Online action site e-Bay Giving Works allows people and NGOs to sell items to benefit a cause. In fact there are more than 25,000 registered charities on e-Bay Giving Works. Individual donors can donate the full price gained from selling or a fraction of the sale (from 10 percent to 100 percent) to a charity of their choice. Thus, e-Bay Giving Works allows more opportunities for NGOs and their donors to sale used items. According to the e-bay Giving Works website, e-Bay Giving Works is a partnership between e-Bay and PayPal Giving Fund (formerly MissionFish), an IRS-registered 501 (c)(3) nonprofit organization. Because of the non-profit stature, donated money through e-bay Giving Works are tax deductible for the seller (or, the donor). The site (<http://givingworks.ebay.com/>) has helped over 25,000 listed charities to raise more than \$ 300 millions since 1999.

The site allows NGOs to bypass the usual (and often ineffective) in-kind donation process. If donors donate their used items through e-Bay Giving Works, NGOs do not have to physically collect, sort and sell donated items which requires investment for logistics and store operations. However, it requires donors to spend significant time on selling (and shipping items) on e-bay. On the other hand, donating to a NGO which have physical donation collection sites in the community require less time investment from the donor and gives the same benefit. From the donor motivation discussion in chapter 2, by donating used items individual donors get warm glow benefit (social and psychosocial benefit), free space at home by donating unused products and tax benefits. From individual donor's cost and benefit perspective, donating to a local thrift store is more convenient (saves time) to donors than selling through e-Bay site. The difference in revenue from physical thrift stores vs. e-Bay Giving Works ( \$ 15 billion per year vs. a total of \$ 335 millions in 14 years from 1999 to 2013) shows

that the donors prefer NGOs to convert their used items to cash than doing it by themselves.

Items that are overly used and are not appropriate for resale through thrift shops in the U.S. are sold to companies that recycle used clothing and other items. Hansen [113] estimates from 40% to 75% of donated clothing to NGOs ultimately goes to second hand textile brokers and recyclers. According to SMART [8], a trade association of nearly 200 textile recycling companies, recyclers discard and ultimately send to landfills nearly 80% of donated clothing they receive. Of the remaining 20% , approximately 45% is sent to various developing countries around the world, mostly in Africa, where there is a demand for second hand clothing (for details on second hand clothing exports in Africa see [113]). Another 20% is converted to fibers for various purposes including insulation, pillow stuffing, etc. About 30% is used as rags or industrial cleaning cloths and the rest is discarded [147].

NGO *Resale* model for individual in-kind donation has been successful in the U.S. and other developing countries as it align individual donors' motivation with NGOs. Donor can donate their used personal items and feel good about their donation. The physical nature of the goods also create opportunities for volunteering both at the collection and receiving sites, which benefits both the individuals ( who want to volunteer) and the NGOs by providing alternative to paid labor. As the items are sold and converted to cash, NGOs get the flexibility of using it in most fitting way. *Resale* model help NGOs generate cash from items that would otherwise have ended up in landfills. NGOs help people re-purpose their used items and support a charitable cause in the process. The attractiveness of this model has made "donation" a default disposal method of used personal and household items in the U.S..

In disaster response context, NGO *Resale* model faces an unusual problem. Instead of selling these items, donors want to send their used personal items to help

the victims. Most of the NGOs responding to disaster relief does not have any established *Resale* mechanism that can convert these used personal item donations to cash. Therefore, the absence of any *Resale* model in disaster relief creates enormous challenge for NGOs. We will discuss about this challenge later in the chapter in Section 3.4.

### 3.2.2 Direct-use

NGOs employ *Direct-use* model for those in-kind donations which are intended for direct transfer to beneficiaries or NGO use, and not eligible for any commercial sale. Almost all corporate and government in-kind donations and some part of individual donations fall in this category. Most corporate in-kind donors donate their inventory to NGOs for distribution to *final beneficiaries* or their own use. *Direct-use* model ensures donors that the donated items will not affect the sale of the same or similar products in the commercial channel, or risk their brand reputation. The donated products are not supervised by the company after the donation and therefore company cannot guarantee the quality of the product. This can harm donor's brand reputation if donated items are sold in inappropriate condition in secondary market. In many cases donor companies require NGOs to distribute their donated products outside the countries where they have commercial operations and therefore, many corporate donations are distributed outside the U.S. (see appendix A for NGO survey result). This "non-sale" agreement is also a part of enhanced tax eligibility for corporate donors in the U.S..

Beside the corporate donations, individual donors also donate in-kind to NGOs for direct use, especially to food banks and local community organizations (e.g. homeless shelters). These donations are intended to benefit the final beneficiary directly. Individual donors often organize food drives, coat drives or collect personal hygiene items for shelters. These type of individual donations are not motivated by donor's

business interest or tax law. In our discussion of donor motivations for in-kind giving, we discussed studies showing individual giving can be paternalistic in nature and people might receive higher “warm glow” by donating tangible items.

Donating in-kind in disaster relief is another example when individual donors and community groups prefer *Direct-use* model for their donation. Our primary motivation in this chapter is to understand how NGOs manage and distribute in-kind donations in non-disaster contexts to explain NGO challenges with in-kind donations in disaster relief. Therefore, in the following section (Section 3.3) we further explore the use of *Direct-use* model in non-disaster context.

### ***3.3 Distribution channels for Direct-use model***

We distinguish two pathways or channels *Direct-use* in-kind donations can follow: *Direct-distribution* and *Pass-through distribution*. The choice of distribution channel for in-kind donations varies based on the context, mostly based on the appropriateness of the donation and the strength of the relationship between the *original donor* and the NGO. *Direct-distribution* is the appropriate channel when the relationship is strong and the donated products are aligned with the NGO’s mission. Otherwise, donations tend to move through the *Pass-through* channel. Number of NGOs a donation passes through before it reaches the *End-use NGO* depends on the donation type and the context of giving.

#### **3.3.1 Direct-distribution**

The *Direct-distribution* channel, in which the *Original donor* donates directly to the *End-use organization*, as illustrated in Figure 6, is the simplest pathway for the distribution of in-kind donations. Corporate gifts to strategic NGO partners typically move through *direct-distribution*. For example, Proctor and Gamble donate their water purifier packets “PUR” in international disaster relief through their NGO partners. For targeted donations of company products, most companies use this model.

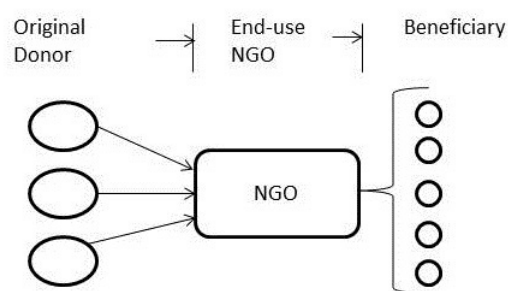
Direct distribution is not limited to disaster relief, companies also donate products and services in a similar way in non-disaster contexts. Many pharmaceutical companies (e.g. Pfizer, Merck and others) donate drugs for disease specific treatments in developing countries through partner NGOs. The simple community donation of food or personal hygiene products to a local shelter also follows the same model.

*Direct-distribution* model helps NGOs and corporate donors establish long term partnerships and is the most suitable delivery model for strategic giving. The close proximity of the *Original donor* and the *End-use NGO* is critical for ensuring social impact. For corporate donor perspective, *Direct-distribution* channel provides more visibility of their donations ( for donated products), helps to integrate product giving with other form of in-kind giving, such as employee volunteering, pro-bono services etc. From our earlier discussion corporate giving motivations in chapter 2, companies increasingly want to engage their employees with the company philanthropic efforts to improve employee morale and loyalty. This is the only model that allows employee volunteering or other in-kind service donations to NGOs in a meaningful way.

However, the *Direct-distribution* model is challenged by the scale of operations, especially for companies who want to donate products in large quantities (mostly from surplus inventories). Most NGOs have limited resources and physical capacity to absorb large scale corporate giving of specific products. For example, it is hard for a local shelter to receive truck-load of toothbrushes from a company. They have neither the capacity to store them nor the number of beneficiaries required to consume them in a reasonable time frame. Giving more toothbrushes than the personal need to each beneficiary only encourages their commercial sale in the secondary market, which is risky for the donor and for the NGO.

*Direct-distribution* also requires perfect alignment between the donor's gift and the NGO need, which can be difficult to achieve when donating surplus inventories. Many products are only relevant to the exempt purpose of a small number of specialized

NGOs. Therefore it is not only physical (logistics) capacity to handle the product but whether the recipient NGO’s scope of the operations can absorb them effectively. The restrictive nature of the in-kind giving results in these operational challenges for NGOs, which we will discuss later in this chapter. The *Pass-through* channel helps solve this problem, but passing donations from one NGO to another, but it has its own limitations and challenges. We discuss them in Section 3.3.2.



**Figure 6:** Direct-distribution channel

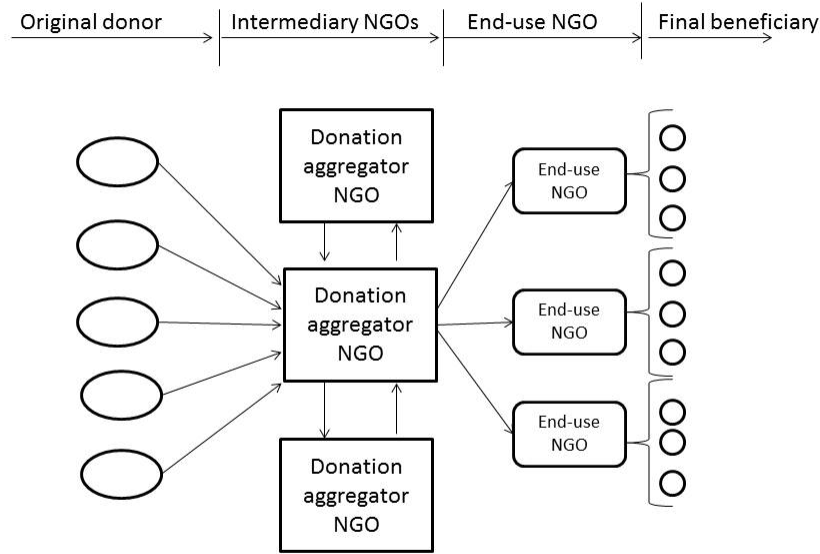
### 3.3.2 Pass-through Distribution

In the *Pass-through* distribution channel, donations flow through multiple NGOs before reaching the *End-use* NGO. It helps NGOs to share donations with others and therefore accept large quantity donations of specific products from companies. The sharing helps to match the NGO operating scale with commercial operations. In our 2012 survey of 34 NGO professionals (from 30 NGOs ) which collectively manage over \$1.5 billion worth of annual in-kind donations, respondents indicated that nearly 30% of the donations came from other NGOs (i.e., *intermediary* organizations). To facilitate donation matching and alleviate the scale issue, many NGOs have established themselves as *intermediary* organization who act as “clearing house” for donors and NGOs. We describe this organizations as *Aggregators*. They play an important role

in the pass-through distribution channel. We describe their roles in the *Pass-through* channel and operating model in the following paragraphs.

### 3.3.2.1 *Aggregator:*

An *Aggregator* is an *Intermediary* that distributes donations to a large number of usually smaller *End-use* NGOs and other *Intermediaries*. An *Aggregator* acts like a wholesaler for donated items, helping donors distribute larger donations among a large pool of usually smaller NGOs and helping smaller NGOs access the gifts of large donors. Figure 7 illustrates an aggregator’s role in the *Pass-through* channel.



**Figure 7:** Donation Aggregator and Pass-through channel

*Aggregator* NGOs generally have the logistics capacity, e.g., trucks, warehouses and volunteers, to handle a large volume of donations. They offer donors an easy way to make bulk product donation and offer *End-use* NGOs a convenient place to

find the in-kind donations they need. Food banks in the U.S., perhaps the first large scale aggregators, are an excellent example. Individuals, manufacturers and grocery retailers regularly donate food to the food banks, which sort, store and distribute the donations to various *End-use* organizations such as local shelters, food pantries and soup kitchens. The *End-use* organizations pay a nominal fee, just a small fraction of the wholesale price of the items, to help cover the food bank's operating expenses.

The concept of food bank started in 1967 by a soup kitchen volunteer and businessman, John Hengel, who solicited help from the local grocery stores, asking them to donate surplus food rather than dumping it. Hengel established St. Mary's food banks in Phoenix, Arizona and its operations grew and eventually spread to other states ( for the historical evolution of food bank network in the U.S. see [83]). From the very beginning, food banks were created to alleviate hunger in the local community by supplying donated foods to local food pantries and soup kitchens. Today, over 200 food banks in the U.S. work with the national umbrella organization, Feeding America, to coordinate their activities and effectively solicit donations from national food manufacturers and grocery retailers. Feeding America in effect an it Aggregator for *Aggregators*. Therefore, the aggregation can happen at different level and scale. The role of umbrella organization is to facilitate the donation process and coordinate among their members. These type of organizations does not physically receive or manage donations which happens at the food bank level ( lower level aggregation).

Following a similar model and, like the food banks, focusing on one industry or cause, Medical Supply Recovery Organizations or MSRO NGOs recover surplus medical supplies from hospitals, manufacturers and distributors and donate them to non-profit clinics and hospitals internationally. Medshare, for example, collects medical supplies from hospitals, and medical supplier companies and distributes them to non-profit clinics and hospitals around the world. Other NGOs such as Americare and Map International act as *Aggregators* for surplus medicines from pharmaceutical



companies. Similarly, Techsoup acts as an *Aggregator* for technology companies' donations of products and services.

### 3.3.2.2 *Distribution mechanism in Pass-through channel*

General purpose *Aggregator* NGOs such as Good360, NAEIR ,Waste to Charity and others, do not focus on any specific industry or cause. They collect donations from various industries and donors and in turn offer them to their member NGOs. Because of their general nature, they receive large volume of donations from various industries and companies. According to Good360's annual report [29], the organization distributed approximately 6500 truckload equivalents of products to over 30,000 charities in the U.S. and 28 other countries between January, 2011 and December, 2012. Donated products included specialty mattresses, technology products, toys and other merchandise, miscellaneous paper and personal care items, pet food and other pet care products, etc.

From operations standpoint, most of the *Aggregators* have similar model. However, they differ significantly with respect their mission orientation. Food banks support a specific cause and they share the same mission with their member NGOs, i.e. local soup kitchens and food pantries. Because of their mission commitment, they measure their impact through not only the amount of food distributed but the advance they made in resolving domestic hunger in the U.S.. For other *Aggregators* (both industry specific or general purpose), there is no shared mission, they support their member NGOs to receive donations from corporate donors. This distinction is important for ensuring programmatic impact.

The *Aggregators* with the *Pass-through* channel facilitate corporate donors to donate more easily without the any operational difficulty. This channel creates an

alternative for disposal of surplus inventories for companies. A 2013 article [178] outlines the benefits companies can receive from donation surplus inventories to a qualified Gifts in Kind (GIK) organizations ( general purpose aggregator NGO). Beside enhanced tax benefits, companies can save on operational expenses (storage), reduce the risk of market cannibalization from liquidated products and receive publicity from their philanthropic efforts. We have discussed all these benefits in corporate donor motivations in Chapter 2. The *Aggregator* NGO create an efficient outlet for companies to donate inventories without having to worry about the details management and distribution of their donations.

*Aggregator* NGOs and many corporate donors rely on the *Pass-through* channel to distribute donated products. At the time of donation, *Aggregator* NGOs receive donations from donors without specifically identifying the *End-use* NGO(s). The underlying assumption is, a donation will eventually find an appropriate —*End-use* NGO if it is passed along from one NGO to other. In each step of sharing, the donation will get closer to the type of organization that can use it. Many corporations donate products with the restriction that they can only be distributed outside the U.S.. *Pass-through* channel helps to distribute these corporate donations internationally.

### 3.3.2.3 Incentives

There are primarily two incentives that help donations move in the *Pass-through* channel. One is the revenue motivation for the receiving NGO and the other is the service fees that *Intermediary* NGOs charge for connecting the donor and the recipient NGO. In many cases, NGOs which pass donations to other NGOs also record the financial value of the donation as their revenue. Recording donations in such way, inflates NGO revenue and reduces the % (of total revenue) overhead cost for NGOs. We have discussed NGO motivations for inflating revenue in chapter 2 in details. *Pass-through* channel allows participating NGOs to record the monetary

value of donations which passes through them.

AERDO GIK guidelines [14] recognize this practice and the potential of misuse. Many NGOs might inflate their revenue by entering in the “pass-through” channel on paper. Sometimes motivated NGOs are willing to pay service fees to their upstream NGOs to receive high value in-kind donations. The NGO survey also indicated that nearly 50% of donations from other NGOs were purchased (i.e. received) with service fees. From operations stand point, NGOs may treat services fees as a “price” to record the donation revenue. AERDO Gifts-in-Kind guidelines [14] suggest their members not to charge services fees based on the \$ value of the donation, which can be interpreted as “sales”, and will violate the non-sale agreement with the original donor. The guideline also suggests that only the *End-use* NGO and the NGOs who receive the donation from the *Original donor* should report the revenue to avoid possible misuse of donation reporting. An *Intermediary* can only record the revenue if it can add significant value by improving the quality of the GIK, providing temporary storage and transportation does not qualify as improving the quality of the donation.

The revenue incentive motivates many medium to smaller NGOs to participate in the *Pass-through* channel for donated product distribution which is helpful from donor’s perspective but can induce wrong incentives and distort the competition among NGOs for donor funding. NGOs participating in *Pass-through* donation channel for inflating their revenue might look much bigger and more efficient (less overhead) than others based on their financial report. In chapter 2 on donor motivations, we discussed that there are empirical evidences that individual donors donate more to NGOs with higher perceived efficacy. NGO financial reports and overhead ratios are often used by individual donors to assess NGO efficacy. Revenue incentives in the *Pass-through* channel can therefore be used by NGOs to “trick” the donor to receive more donations.

In this section, we described various *Direct-use* distribution channels that donors

and NGOs use to distribute in-kind donations in non-disaster context. The understanding of the NGO operating models (*Resale* vs. *Direct-use*) and the channels of distribution for *Direct-use* in-kind donations helps us to understand the context of how NGOs are organized to utilize in-kind donations. In Section 3.4 we describe the channels used by various donor groups to send in-kind donations to disaster relief both international and domestic disaster response.

### ***3.4 In-kind donation channels in disaster response***

In-kind donations in disaster response come from the same donor groups as in non-disaster context, however, the channels used are sometimes different from their regular distribution channels. In this section, we describe the channels used by these donors (individuals and companies) in disaster response to contrast them with their non-disaster channels and discuss the differences to understand NGO challenges in managing them.

#### **3.4.1 Individuals and small group donors:**

In large scale national and international disaster responses, the major source of unsolicited and mostly inappropriate donations come from individuals and small community group donors. Most of these donors regularly donate in-kind (e.g. used personal and household items) to NGOs, such as the Salvation Army, Goodwill Industries and others. After a disaster response they want to donate similar items to help disaster victims.

From our earlier discussion on donor motivations in Chapter 2, we discussed that individuals may receive higher “warm glow” benefits from participating in various donation collection and volunteering events, especially after a major disaster when emotional requirements are higher to help the victims through some types of physical engagements. Research in psychology [149] shows that people are willing to endure

physical discomfort for causes that relates to human sufferings ( helping disaster victims), the call it “The Martyrdom Effect”. These motivations lead many community groups to organize their own donation collective events where people bring in their used personal items (clothing, shoes etc.) and basic supplies such as bottled water, diapers, hygiene items etc.

Recognized disaster relief organization who directly distribute donations to victims such as the American Red Cross and others do not accept such unsolicited donations of personal items from these small community groups. The sorting and processing required for these types of donations are not productive for NGOs and therefore, they just solicit monetary donations from individual donors. Unable to find an NGO to accept the donations, these groups often organize their own transportation and send these donations directly to the disaster area in the hope some local organizations will be able to use them.

From channel perspective, there are two distinctive differences in disaster relief that create challenges for both the donors and NGOs. First, there is no identified *Resale* channel for donors that can turn donated clothing to cash for disaster relief operations. The organizations who receive used personal items in non-disaster context (Goodwill Industries, Salvation Army) do not support disaster relief through their thrift store revenues. Secondly, personal item donations are pushed to the disaster site without any defined distribution channel. In many circumstance, the trucks full of donated clothing and other items just drop their cargo at the disaster site if they can’t find any interested local organizations. This challenge is similar in international relief operations too. Donor groups often send ocean container full their collected donations consigned to “ the people of the affected country”. The lack of any defined *Direct-use* channel in disaster relief for individual donors makes in-kind giving in disaster relief unproductive exercise both for the donor and NGOs.

### 3.4.2 Business donors:

Many businesses offer in-kind donations of products and services to NGOs in disaster response. We discussed about Proctor & Gamble donating PUR water purifying packets and other personal hygiene and cleaning products in disaster relief in Chapter 2 as targeted donations. In a large scale disaster response, businesses of various sizes (from local businesses to national and multinational companies such as P&G) donate products to NGOs participating in disaster relief. For larger corporations, who have regular in-kind giving programs domestically or internationally, disaster giving is relatively easier as they donate through their regular NGO partners.

However, the existing relationship can be both a blessing and a challenge in disaster giving for many NGOs. If the donation offers are appropriate for the recipient's response and distribution capacity, it flows easily through the *Direct -distribution* channel. However, if the donations are not appropriate for the recipient NGO's response, the challenge begins on how to use or redistribute the donations without staining their donor relationship. Many NGOs do not refuse donations from their corporate partners for the risk of losing them. However, they also need to find appropriate programs or other NGOs to distribute donated products from their partners which they can't use. Therefore, many donations from established partners can also enter in the *Pass-through* channel if the primary recipient can't use them effectively.

Corporate donations of surplus inventories are generally managed by *Aggregator* NGOs in non-disaster context and it flows through *Pass-through* channel to an *End-use* NGO. Similar model is difficult to implement in disaster relief with surplus inventories. In a time pressing and volatile situation, it is difficult for *Aggregators* or donors to find a suitable *End-use* NGO to donate a specific products unless it matches their need. The only revenue motivations may not work in disaster relief context for relief NGOs as their main priority is to help the victims after the disaster.

Sometimes many companies and *Aggregators* make opportunistic donations in disaster relief by organizing their own transport and sending their donated items directly to the disaster site without identifying any suitable disaster relief NGO partner before the shipment. Many local community organizations and hospitals become the *End-use* NGO for these donations who are often inexperienced in disaster relief and too polite to say “NO” to outside donors. Therefore, distribution channels in disaster relief remain same as non-disaster channel for corporate donations, but donors and *Aggregators* may sometime push unwanted donations in a *pass-through* channel which are made of different NGOs than their usual channel.

### **3.5 Conclusion:**

In this chapter, we discuss various channels donors and NGOs use to distribute in-kind donations. The distribution channels for in-kind donations used by NGOs can vary based on the context of use, i.e. whether they are used for disaster relief or long term development projects. Most of the challenges faced by NGOs managing in-kind donations are related to the channels they use for distribution. We use our definitions of various NGO roles and the channels from this chapter to describe the challenges NGOs face with in-kind donations. In a disaster relief context these challenges manifest themselves at a higher intensity and causes inefficiency and delays in the relief operation. We discuss detail about these challenges and their impacts on the overall relief supply chain in Chapter 4. We also use the channel description in this chapter as a basis for an comprehensive framework that we offer in Chapter 5 to develop our understanding of the problem.

## CHAPTER IV

# DONOR AND NGO CHALLENGES IN MANAGING IN-KIND DONATIONS

### *4.1 Introduction*

Improving disaster relief operations has been the key focus of humanitarian logistics research over the last decade. Among many other challenges in disaster relief, efficient management of in-kind donations is significant. Unmanaged and often unsolicited in-kind donations have been identified in the humanitarian logistics literature [192, 106, 117, 45] as one of the main challenges for relief workers in disaster response operations. Unsolicited in-kind donation pose a system wide problem for disaster response as they consume valuable resources and slow the overall response [183].

In this chapter we describe the effects of inappropriate donations on overall relief operations. Inappropriate donations consume the time and energy of busy emergency personnel and block the flow of needed supplies by occupying limited storage and transportation capacity in the disaster area [183]. Numerous articles in the humanitarian logistics literature [183, 120, 85, 45, 106] document the impact of the second disaster.

To fully understand these donations and the challenges they create, we must better understand the flow of in-kind donations in non-disaster contexts. Experiences and expectations established in non-disaster contexts shape our responses to disasters. The differences between in-kind donation channels in disaster and non-disaster contexts engender systemic challenges that often turn in-kind donations in disaster response into a disaster all their own, “the second disaster”. We describe the effects of the second disaster on overall disaster relief operations in Section 4.2. This



chapter provides a comprehensive view of challenges various entities face with in-kind donations to help understand the making of “the second disaster”. In Chapter 5, we translate this comprehensive view into a comprehensive framework to address the second disaster in a systematic way.

## ***4.2 The second disaster***

Inappropriate in-kind donations pose serious threats to relief efforts. The challenge is often so severe that it is referred to as “the second disaster” in the NGO community. The term “the second tier disaster” was used in a 2002 Newsweek magazine article[101] describing the masses of unsolicited donations (with an estimated value of \$75 million) that piled up in relief agencies’ warehouses in New York City and adjacent areas after the September 11, 2001 terrorist attack. Other news articles [98, 96] have used the term “the second disaster” to describe the “disaster” for relief workers who have to manage the masses of unsolicited donations after a disaster. Holguín-Veras et al. [121] suggest that nearly 60% of material donations made to the Hurricane Katrina and Haiti earthquake responses can be classified as inappropriate donations.

Managing unsolicited in-kind donations in a post-disaster context is considered one of the most critical challenges for NGOs and relief workers. In interviews with Holguín-Veras et al. [117] logisticians involved in the 2010 Haiti earthquake response unanimously agreed that unsolicited donations were the most difficult barrier for effective response. In the same article, Holguín-Veras et al. suggest that the management of unsolicited in-kind donations in disaster response has not significantly improved since 1957, when it was identified in the disaster literature as the “material convergence” problem [104]. Since the 2004 Asian Tsunami response, many articles in the humanitarian logistics literature [192, 133, 120, 45, 183, 85] have pointed to unsolicited and therefore unmanaged in-kind donations as one of the main challenges

for effective response. Most of these articles discuss the implications of unsolicited in-kind donations in the disaster relief supply chain, especially in the areas of logistics resource management, supply management and disposal. We describe these challenges in sections 4.2.1 – 4.2.4.

#### **4.2.1 Logistics**

Unsolicited in-kind donations pose severe logistics challenges for large scale international relief operations. These donations often accumulate for months on the airport tarmac or in the port areas of the affected country as no NGO wants them or has the manpower to sort through them to identify the supplies they do want. During the 2004 Asian Tsunami response, the accumulation of unusable donations blocked incoming relief supplies and almost closed down Sri Lanka’s Colombo International Airport completely [183]. Low-priority or unwanted items often block the flow of other important supplies in the early stage of disaster relief by occupying limited storage and consuming limited transportation capacity [119]. Donated materials in international disaster relief are often held by local customs for long periods as they lack proper documentation and permits, which many NGOs and their donors fail to provide. Coordinating with customs officials, overseas donors, clearing agents, etc. for these donations creates extra work for NGO staff – efforts that, in most cases, yield no useful results because, in the end, the donations are either inappropriate for the response at all or ultimately arrive too late to be useful.

Similarly, for domestic disaster response in the U.S., unsolicited donations overwhelm local volunteers and NGO staffs [162, 96]. In many cases these donations are left out in the open for days as NGOs struggle to find suitable storage areas for them [120]. Relief workers and logisticians on the ground spend a significant portion of their time managing these donations even though they usually prove useless or even counterproductive in the end.

Researchers estimate that in the Asian Tsunami in 2004 [115], Hurricane Katrina in 2005 [120], the Haiti earthquake in 2010 [119] and the Japan earthquake and tsunami in 2011[121], between 50% and 70% of the materials transported and managed by logisticians for disaster relief was not useful at all.

By consuming limited resources, inappropriate donations ultimately slow the overall response and extend victims' suffering. Media reports of the slow response and victims' suffering brings more unsolicited donations and causes further delays. Besiou et al. [141] illustrate this media effect on unsolicited donations through a causal loop diagram in their 2011 paper.

#### **4.2.2 Supply uncertainly and lack of visibility**

In a review of humanitarian logistics operations, Kovács et al. [133] discuss the challenges of managing unsolicited and solicited supplies from various donors. Even donations of necessary relief supplies (e.g., medicines, food and other items) can be difficult to manage in international disaster relief. A Financial Times article [145] discusses examples of how language differences and a lack of standardized labeling created problems during the 2004 Asian Tsunami response. The lack of visibility of these donations often contributes to undersupply or oversupply of relief items, causing coordination challenges for relief activities [45]. Holguín-Veras et al. [117] describe the oversupply of blankets in Japan after the 2011 tsunami and bottled water in Haiti after the 2010 earthquake.

Unsolicited donations are often sent to relief organizations without any prior consent or notification. In the immediate aftermath of hurricane Katrina in 2005, trucks filled with unsolicited donations, mostly used clothing and other household items, unloaded their cargos in front of NGO shelters and staging areas and drove away leaving relief workers to sort out the mess [120]. More recently, the Associated Press and NPR [144, 97] reported cases of local donation drives organized by well-meaning

individuals and ad-hoc relief groups after Superstorm Sandy. Many of these donations simply arrived at the disaster site without any prior arrangement with relief agencies. Even when donations are appropriate, this lack of visibility can create havoc for relief operations.

#### **4.2.3 Unproductive use of NGO staff and volunteer time**

Sorting through mixed supplies of donated products like those left after hurricane Katrina often proves frustrating and time consuming as the vast majority of the donated goods are inappropriate at best and useless at worst. During disaster response, donated materials are often stored in make-shift warehouses, which, given the limited resources and dynamic and ad hoc nature of the response, are rarely well-organized. NGO staff and volunteers spend hundreds of hours sorting through them. An Associate Press article [162] describes the frustrating conditions and challenges of “junk donations” in a local warehouse after the 2011 tornadoes in Tuscaloosa, Alabama, where “donated toys were piled 6 feet high as volunteers sort through hundreds of bags of old clothes”.

#### **4.2.4 Disposal of unwanted donations**

Because warehouses and other shelters are often in short supply, donations of used clothing and household items that cannot be productively used are often left out in the elements. Salvage brokers are unwilling to except soaked and muddy masses of used clothing and sending them to landfills is costly and can damage a relief agency’s reputation. Discarding corporate donations can be even more difficult as many items such as expired pharmaceuticals or other medical items require orderly disposal.

A study of inappropriate drug donations [190] in international disaster relief suggests that in the 2004 Tsunami response as much 70% (as in Aceh, Indonesia) to 80% (as in Sri Lanka) of donated drugs were inappropriate. Most of these inappropriate medicines were ultimately incinerated. Government regulations often prevent

re-exporting donations that have been imported for disaster relief and so many NGOs find they have no alternative but to pay for disposal of inappropriate donations received during the disaster response.

Disposal of unwanted in-kind donations is a difficult challenge for NGOs from logistical, financial and donor relationship perspectives. Since 3rd party companies that offer certified disposal services are rare in developing countries, NGOs often find they must organize the disposal process themselves. Disposal is even more challenging for specialty items such as expired pharmaceuticals, which require orderly disposal in accordance with local laws or the donor company’s guidelines [115].

Disposal also poses risks for the NGO’s reputation, leading some NGOs to store unuseable donated products for years. For example, a major U.S. underwear manufacturer donated 10 forty foot ocean containers filled with assorted new undergarments to an international NGO for use in the response to the 2010 Haiti earthquake. While much of the clothing was helpful, many were too large for Haitian people. The NGO faced both internal and external challenges in attempting to re-export the over sized clothing. The NGO’s Haitian office did not want to approach the Haitian government about re-exporting the oversized underwear for fear of the bad press and damage to the organization’s reputation that might cause locally. After holding the underwear for over a year, the NGO finally donated them to another local organization, which cut them up to make quilts.

### ***4.3 NGO operational challenges with in-kind donations***

In this section, we describe common NGO operational challenges with corporate in-kind donations. In our 2012 NGO survey, respondents were asked to “rank the following challenges as it applies to your organization”. Table 3 shows the list of challenges and their overall rankings.

We further breakdown the rankings of these challenges based characteristics of

#	Challenge	Average Rank
1	Getting appropriate products for programs	1.74
2	Custom clearance for international donations	3.94
3	Visibility of donation and donor reporting	4.00
4	Transportation and storage in recipient countries for international donations	4.03
5	Valuation of the donated items	4.06
6	Lack of logistics infrastructure to collect and deliver donated products	5.12
7	Saying “NO” to important donors for inappropriate donations	5.12

**Table 3:** Ranked list of challenges with average ranks (on a scale of 1 to 7 with 1 being the highest rank)

the NGO (e.g., size, role as Intermediary or End-use NGO, etc., see Appendix B). In this section we describe each of these challenges in detail. We also discuss the relative importance of these challenges based on the channels NGOs use to acquire and distribute in-kind donations.

#### 4.3.1 Getting appropriate products for programs

The challenge of “Getting appropriate products for programs” refers to the fact that most in-kind donations are not donated based on NGO needs. Instead donors offer what they have. NGOs struggle to match these donation offers with programmatic needs. Getting appropriate items is the most important challenge for both *End-use* and *Intermediary* NGOs irrespective of their size or the source of their donations (see Appendix B for breakdowns of the rankings based on NGO characteristics).

Most of the in-kind donations that NGOs accept for international disaster relief are either government donations, which are by and large targeted and appropriate and surplus inventory donations from corporations. Matching surplus inventory donations with NGO needs is difficult in international disaster relief contexts. Donated items frequently do not suit the local climate, culture, infrastructure or demographics of the affected region. Even seemingly appropriate items, such as canned food, blankets or winter clothing can prove inappropriate if they are not well suited to the local

conditions or fail to meet international relief standards (e.g., the SPHERE standards [157]). Fleece blankets, for example, may seem like an ideal product for donation to disaster relief, but often prove to be inappropriate or at best of questionable value in international disaster relief as they are highly flammable and can have tragic consequences in temporary shelters (tents) where open fires are frequently used for lighting and cooking.

Because of the specific nature of the need, most in-kind donations in disaster response prove inappropriate. For a wealth of information on inappropriate in-kind donations in international relief and development, see the web-blog “Good intentions are not enough” ([www.goodintent.org](http://www.goodintent.org)) or the Center for International Disaster Information’s (CIDI) website ([www.cidi.org](http://www.cidi.org)).

<b>Intermediaries</b>	<b>End-use NGOs</b>
1. Getting Appropriate products for programs	1. Getting Appropriate products for programs
2. Custom clearance for international donations	2. Valuation of donated items
3. Visibility of donation and donor reporting;	3. Visibility of donation and donor reporting
4. Transportation and storage in recipient countries for international donations	4. Transportation and storage in recipient countries for international donations
5. Valuation of donated items	5. Custom clearance for international donations
6. Lack of logistics infrastructure to collect and deliver donated products	6. Saying “NO” to important donors for inappropriate donations
7. Saying “NO” to important donors for inappropriate donations	7. Lack of logistics infrastructure to collect and deliver donated products

**Table 4:** Ranked list of challenges for Intermediaries and End-use NGOs

#### 4.3.2 Customs clearance in international shipping

We discuss the delayed custom clearance process for in-kind donations in disaster relief in Section 4.2.1. As the survey suggests, it is a significant challenge even in non-disaster contexts. Most donations are sent to developing countries, where customs clearance processes can be slow and corruption can be endemic. Because NGOs do not

receive a steady flow of donations of similar items or send them to the same countries frequently and repeatedly, NGO staff, who are typically not trained logisticians, are unfamiliar with recipient countries' import policies for donated goods and the requirements for supporting documents.

Table 4 shows that customs clearance in international shipping is the second most important operational challenge for *Intermediary* NGOs whereas it is the fifth most important challenge for *End-use* NGOs. Donated items shipped internationally are often held at customs as they lack proper documentation or certification, which only the manufacturer or distributor can provide. The different rankings in Table 4 suggest that *End-use* NGOs have less trouble with donors in the Direct-distribution channel and, in the Pass-through channel, are pushing the problem back on the Intermediary NGOs to resolve.

### **4.3.3 Visibility of donation and donor reporting**

Visibility of the donation refers to the availability of up-to-date information about where the donations are and how they are used. Most corporate donors require some form of reporting (often in the form of beneficiary stories or distribution reports) about the disposition of donations. Donation visibility is important for donors both for understanding the programmatic impact and for monitoring the risks from improper use.

The Pass-through channel poses significant risks for the donor as it provides less visibility. Although NGOs participating in the Pass-through channel are responsible for using donations in accordance with their tax exempt purpose and donors' guidelines, any misuse can harm the donor's reputation and donated products that end up in secondary markets can cannibalize sales.

The Direct-distribution channel provides greater visibility. Nevertheless, many NGOs struggle to meet and manage donors' reporting requirements. While most



NGOs provide impact stories and distribution reports to larger donors, producing separate reports for each corporate donor can strain the capacities of NGO staff and their limited reporting systems.

#### **4.3.4 Transportation and storage in recipient countries for international donations**

Last mile logistics is a recognized challenge for international NGOs both in disaster and non-disaster contexts. The lack of commercial infrastructure and standard logistics services in recipient countries, especially in times of crisis, complicates logistics operations. Many NGOs fail to plan appropriately for the inevitable extra logistics costs associated with in-kind donations while accepting donations and so face challenges later.

Last mile distribution is especially challenging in large scale disaster response when the local infrastructure is fully or partially destroyed. Holguín-Veras et al. [119] describe the truck shortages NGOs faced in Haiti and the Dominican Republic during relief operations after the 2010 earthquake and with many buildings damaged by the earthquake, storage facilities were hard to find. After the 2004 Asian Tsunami, roads destroyed by the tsunami waves left many severely affected communities in Indonesian coastal areas inaccessible.

#### **4.3.5 Valuation**

Table 4 ranks valuation as the second most important challenge for End-use NGOs. Valuation refers to the question of how to determine an appropriate “fair market value” for a donation. The current accounting standards (from GAP and FASB) and IRS guidelines do not dictate a single method for determining fair market value and so different NGOs can record different “fair market values” for the same donation based on the methods they use.

The lack of standards complicates the valuation of in-kind donations such as pharmaceuticals. NGOs often rely on the values suggested by donors who, for tax and other reasons, have an incentive to report higher values. A 2011 Forbes article [48] cites specific examples of how at least a dozen of the largest charities in the U.S. (based on Forbes’ list of the top 200 charities) overvalued donations of deworming pills. Many charities valued the pills (mainly mebendazole and albendazole) as high as \$16.25 per pill while the author claims that they are available from generic manufacturers at a cost of \$0.02 per pill.

Table 4 also shows that End-use NGOs are much more concerned than Intermediaries about valuation. We argue in Chapter 2 that some NGOs use in-kind donations to improve financial metrics and this applies especially to End-use NGOs as Intermediaries already enjoy the benefits of in-kind donations as part of their operating model. The importance of valuation to End-use NGOs suggests that valuation can influence decisions about which in-kind donations to accept, an issue we discuss at greater length in Chapter 6.

#### **4.3.6 Lack of logistics infrastructure to collect and deliver donated products**

NGOs that work directly with donors must be able to handle large donations, pick them up on short notice, sort them, etc. Smaller NGOs that do not have these resources can work with Aggregator NGOs that provide logistics capacity such as large warehouses, trucks, access to volunteers for sorting and packing, etc.

We already discussed the challenge of “saying NO to donors for inappropriate donations” in Chapter 2. In Section 4.4, we describe systemic challenges in the management of in-kind donations in disaster relief.

## **4.4 *Systemic challenges with in-kind donations in disaster response***

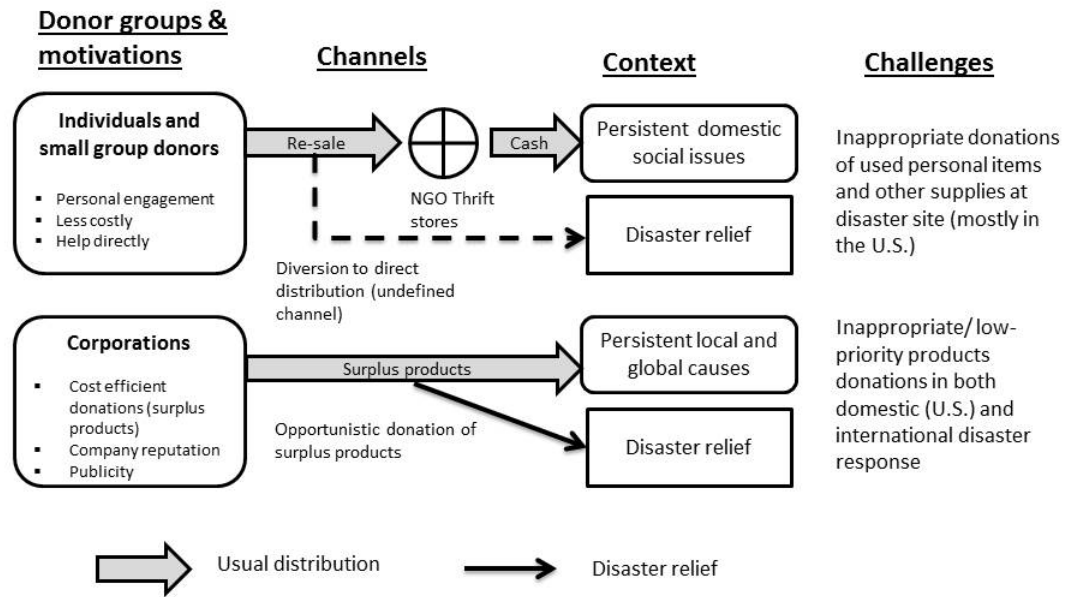
Our discussion in Chapter 3 of in-kind channels in disaster and non-disaster contexts highlights systemic challenges that complicate the flow and management of in-kind donations in disaster relief.

### **4.4.1 Diversion of in-kind donations from non-disaster to disaster relief**

After a well-publicized, large scale disaster, goods that would normally be donated to the Resale channel are diverted to the disaster response even though no disaster relief channel is equipped to handle them and corporate donations of surplus inventories, which would otherwise go to various NGO development projects or perhaps would not have been donated at all, are suddenly donated to the disaster response. We refer to this phenomenon as “*channel diversion*” (illustrated in Figure 8).

We argue that expectations set by the Resale channel in non-disaster contexts indirectly promote the donation of used personal items in disaster relief. As we discuss in Chapter 2, media coverage of the devastation and stories of human suffering create a strong urge for people to do something for the victims. This phenomenon in which large scale, well-publicized disasters attract considerably more funding than persistent social causes is described as “the crisis mentality” of donors [91].

Many community and religious groups that organize in-kind donation drives to support local charities respond to a large scale disaster by organizing similar drives to collect relief supplies and personal items only to find that the Resale channel that so effectively manages these donations in non-disaster contexts does not exist in the disaster relief context. Left with no formal channel to support them, these groups find ways to send their donations directly to the disaster area. This sudden diversion of used personal items from the usual Resale channel to disaster relief causes



**Figure 8:** Channel Diversion of In-kind Donations in Disaster Relief

severe problems for disaster relief NGOs, which are neither equipped to convert these donations into cash nor able to use them for relief operations.

Similarly, companies that donate in-kind regularly, recognizing that donations to disaster response are more visible and provide more compelling opportunities for employee engagement, often redirect their donations to disaster relief. This channel diversion contributes to many of the challenges listed in Table 3 and discussed in sections 4.2.1 – 4.2.4.

#### 4.4.2 Misaligned incentives

Corporate in-kind donations qualify for enhanced tax benefits regardless of the context of giving or the appropriateness of the gift as long as they satisfy IRS tax code 170(e)(3) requirements. The IRS requirements assume NGOs only accept appropriate

donations: if an NGO accepts a donation, it must be useful for the organization's charitable purpose. But, as we discussed in Chapter 2 and pursue again in Chapter 6, NGOs decide which in-kind donations to accept based not only on the appropriateness of the goods, but also on the value of the goods and the relationship with the donor. As a consequence, NGOs accept donations of low-priority and perhaps even inappropriate goods that have a high "fair market value" or that come from an important donor.

According to CECP 2013 giving report [30], 88% of the total giving (by market value) from pharmaceutical companies is donated in-kind in the form of products and 72% of the total corporate non-cash giving (by market value) comes from pharmaceutical companies. Although many pharmaceutical product donations are life saving and have considerable social impact, not all donations have similar impacts and they can be accepted by NGOs for reasons other than appropriateness. Inappropriate drug donation is a common phenomenon in disaster relief. Van Dijk et al. [190] estimate that over 70% of the drugs donated in the 2004 Asian Tsunami response in Aceh (Indonesia) and Sri Lanka proved inappropriate and were ultimately incinerated.

## **4.5 Conclusion**

Despite efforts to educate donors about the problems they cause, in-kind donations are significant and growing. So long as the motivations described in Chapter 2 and the channels described in Chapter 3 remain as they are, we can expect this trend to continue and the challenges described in this chapter to grow. Chapter 5 summarizes the full scope of the problem in a comprehensive framework that helps to identify possible solutions and intervention opportunities to reduce the unproductive in-kind giving in disaster response and the impact of the second disaster.

## CHAPTER V

### COMPREHENSIVE FRAMEWORK AND A STRUCTURED SOLUTION APPROACH

#### *5.1 Introduction*

Unsolicited material donations pose a key challenge for humanitarian relief organizations in disaster response both in the U.S. and internationally. Over the years, many relief NGOs have invested significant staff time and logistics resources to process these donations only to find that most could not be used for relief purposes and instead accumulated at the disaster site creating what has come to be known as “the second disaster”. To avoid the second disaster, many prominent NGOs no longer accept unsolicited in-kind donations and have mounted public campaigns promoting “cash only” donations.

To further improve donation management, the U.S. FEMA, the Aidmatrix Foundation<sup>1</sup> and several corporate sponsors have partnered to create the “National Donation Management Network”, a web portal that allows NGOs and donors to post their needs and donation offers. Unfortunately, neither the “cash only” campaigns nor the donation portal has stopped the flow of unsolicited donations to disaster sites, as is evident from news articles covering disaster relief efforts from 2012 Superstorm Sandy in the New York, New Jersey area (See, for example, NPR reports [96] and [95]). Building public awareness and creating a central donation portal are important tools, but they are clearly not enough. Managing the second disaster requires a comprehensive approach, which takes into account the different donor types and their motivations and the distribution channels for in-kind donations both in disaster

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<sup>1</sup>A non-profit technology solution provider for improving NGO operations ([www.aidmatrix.org](http://www.aidmatrix.org))

and, importantly, in non-disaster contexts.

In this chapter we provide a simple framework to identify and comprehend the main issues and mechanisms contributing to the second disaster. The framework helps to structure a comprehensive, tiered approach that does not simply stop at trying to educate donors, but also recognizes their motivations and the unintended “training” they receive from the established distribution channels for in-kind donations outside the context of disasters. In Section 5.2 and 5.3, we discuss the solution approaches described in literature and the current NGO initiatives to reduce the impacts of the second disaster. We describe our framework in Section 5.4 and propose a tiered strategy in Section 5.5 and illustrate it with potential implementations.

## ***5.2 Solution approaches proposed in the literature***

The disaster relief literature and NGO reports address the question of unsolicited donations from an operational point of view and, as a consequence, propose operational strategies for dealing with them. Because of the difficulties discussed in Chapter 4 involved in managing in-kind donations in disaster relief, Balcik et al. [45] suggest that NGOs refuse in-kind donations in disaster response. Many established NGOs, including the IFRC (which does, nevertheless, accept very targeted corporate donations), MSF and CARE, follow this advice.

Media publicity of victims’ need can bring more unwanted items in disaster relief. Empirical evidence (see [182]) suggests that media coverage can affect the size of the response (cash and in-kind) in disaster relief and Besiou et al. [141] point out that media coverage tends to increase the flow of unwanted items in disaster relief. Since greater coverage can drive more donations, it is important to inform the general public about appropriate giving. Holguín-Veras et al. ([120] and [121]) suggest increasing public awareness through media campaigns promoting appropriate giving.

Van Wassenhove [192] and others [75, 73] suggest categorization of donated materials to prioritize efforts in disaster relief. Establishing guidelines and acceptance criteria can help NGO staffs to make faster and more consistent decisions in times of crisis and prevent inappropriate donations from entering relief supply channels in the first place. Holguín-Veras et al. [117] recommend Pan American Health Organization's (PAHO's) donation classification system (As part of the Humanitarian Supply Management System or SUMA, which is a software system developed by PAHO in 1992 in cooperation with WHO. It allows users to classify and track donations), which classifies each donation as: 1. Urgent or High Priority items (HP), 2. Non-urgent or Low Priority items (LP) or 3. Non-priority (NP) items. Although Holguín-Veras et al. [117] recommend classifying donations based solely on the need, they recognize the influence of donor pressure on NGOs. It is important to acknowledge the role of donor pressure in NGO decisions and to integrate donor influence into the decision framework. In Chapter 6, we present a decision framework that considers both the appropriateness of the product and relationship with the donor.

Thomas et al. [183] and Van Wassenhove et al. [139] suggest NGOs build prior partnerships with companies to receive appropriate donations in a timely manner for greater impact. Thomas et al. [183] describe various forms of corporate donor and NGO partnerships for more effective response: single company and NGO, multi-company consortium etc. The levels of engagement can vary in these partnerships ranging from simple philanthropic contributions (cash and in-kind) in disaster relief to long term capacity development for NGOs for effective relief operations. Balcik et al. [45] suggest a greater level of coordination among NGOs and donors to match donations and needs. Most international NGOs have fund raising offices in North America, Europe, Australia and some countries in Asia (e.g. Japan) where donation decisions are made, but the fund raising staffs must coordinate with local country or regional offices to match donation offers with needs. Kovacs et al. [106] observe that



this coordination could be better in practice.

To promote greater coordination and increased visibility of donations across relief organizations, Tomasini et al. [186] suggest information sharing among NGOs and advocate for technology solutions such AidMatrix’s donation management portal. Other suggestions include re-allocation of unwanted items and bringing them back from the disaster site [154] and pre-staging in-kind donations outside the disaster site for better screening and consolidation [45].

This list summarizes and provides references for proposals in the literature for reducing unsolicited donations:

- Not accepting any in-kind donations [45]
- Establishing partnerships with business donors [183, 192, 61]
- Pre-staging in-kind donations before sending to disaster site [45]
- Developing donation acceptance criteria or guidelines [73, 192]
- Information systems providing donation visibility [73, 120, 132, 135]
- Reallocating unwanted donations to other events [154]
- Media publicity informing donors how to give responsibly [120, 121, 141]

### **5.3 *NGO efforts***

Disaster relief NGOs and government agencies responding to disasters are aware of the crippling effect of the second disaster in any large scale disaster response. To mitigate the second disaster, USAID formed the Center for International Disaster Information (CIDI) in 1988, one month after Hurricane Gilbert made landfall as a Category 5 storm that affected 10 countries, including the United States, Mexico, Jamaica, Haiti and others. CIDI’s main objective has been to educate the public on the detrimental effects of inappropriate material donations in disaster relief and to encourage cash

donations. Similarly, the U.S. Federal Emergency Management Agency (FEMA) and National Voluntary Organizations Active in Disasters (NVOAD), a NGO membership organization for disaster relief NGOs, recognized the problem and created their own donor guidelines and public service announcements and formed working committees to investigate the issue (e.g., the donation management committee at NVOAD).

The initiatives taken by NGOs and advocacy groups (CIDI, NVOAD) have mostly focused on donor education and information sharing. CIDI airs public service announcements, answers donor inquiries and engages with various community groups to provide education on the destructive effects of unsolicited material donations. A coalition of organizations, including USAID, CIDI, the UPS Foundation, NVOAD and led by the Ad Council, promotes cash giving through various media [163]. In 2007, FEMA, the Aidmatrix Foundation and several corporate sponsors created National Donations Management Network<sup>TM</sup>(the donation portal managed by Aidmatrix) to help donors and NGOs post their donation offers and needs for better communication and donation management. Unfortunately, these solution approaches have not significantly diminished the flow of unsolicited donations in disaster relief as is evident from news reports following the 2010 Haiti Earthquake, the 2011 Japan Tsunami and the 2012 Superstorm Sandy in the U.S..

With increased use of social media, such as Facebook and Twitter, individuals and community groups have more ways to reach out to victims and learn about the situation on the ground [107, 158, 33], which, as we discussed in Chapter 2, increases donors' "awareness of the need" and motivates them to contribute in a more direct way. The traditional model of disaster response is increasingly challenged by donors who can see that needs are not being met. If established relief organizations are unable to provide timely support to victims, local groups may, with even greater scale and sophistication. Many local volunteer groups are now more active in domestic disaster response as social media allow them to organize and receive donations quickly and

help victims directly. A Time magazine article [175] calls this model “peer to peer” aid, which is becoming increasingly popular in domestic disaster response in the U.S..

These local volunteer groups often do not have a formal structure or prior experience in disaster response and are more willing to accept all kinds of donations including unsolicited and often inappropriate in-kind donations, opening up a new channel for those wishing to donate in-kind despite established NGOs’ efforts to promote “cash only” giving. We argue that unless relief organizations become more efficient and responsive in meeting victims’ needs in a timely manner, efforts to encourage cash donations will become less and less effective. Donors motivated by an increased awareness that the victims’ needs are not being met will find other ways (e.g., through these grass-root organizations) to deliver the goods they have to offer. Ignoring in-kind donations will not make the problem go away.

The other notable solution in this regard is AidMatrix’s National Donations Management Network<sup>TM</sup>, which allows NGOs to post requests and donors to post offers. In an ideal world, donors would respond to specific NGO requests and NGOs could use the portal to accept donor offers. Although the portal represents an important step forward, this ideal situation is the exception rather than the rule. Donors post what they have without regard for specific NGO requests and the task of sifting through the thousands of donor offers posted after a major disaster, let alone of vetting donors and specific donation offers, is still frustrating and time-consuming for hard-pressed NGO staff. Donors, on the other hand, become frustrated when their offers are not accepted quickly and frequently decide to simply send the donations directly regardless of whether they have been accepted and often without any specific consignee.

NGO efforts to reduce unsolicited in-kind donations to disaster relief have not solved the problem. Unsolicited and inappropriate donations is still a serious challenge even for domestic disaster response (see for example, 2013 NPR report [95])

## 5.4 *A systematic approach to the second disaster*

Current efforts are clearly not sufficient to prevent the second disaster and simply doing more of the same is not the answer. Many of the current interventions are as effective as we could reasonably expect them to be given the powerful motivations for giving in-kind and the available channels for doing so. Instead we believe that to significantly reduce the second disaster will require a comprehensive framework capturing the full scope of the issue and identifying all the opportunities to intervene in the generation and flow of unsolicited donations. Rather than wistfully hoping one silver bullet will prove 100% effective in deterring inappropriate donations, we must pragmatically construct a systematic, multi-layered array of interventions each of which deters only a fraction of the inappropriate flows, but which together dramatically diminish the problem.

A framework helps us more easily visualize and comprehend the full scope and complexity of the problem within a single simple, intuitive structure. We propose a comprehensive and structured framework that can serve as a basis for developing and evaluating different solution strategies. The framework helps position existing strategies, such as donor education, donation portals and “just say no” strategies as well as identify gaps in our strategies. A comprehensive solution framework must address:

- Who: Who donates in-kind in disaster relief and who receives those donations?
- Why: Why these organizations engage in the current in-kind donation practices?
- How: How in-kind donations flow from original donors to final beneficiaries?
- What: What relationships exist among different entities and how these relationships influence behavior?

- Where: Where are the opportunities to intervene in the process to mitigate the second disaster?

A complex problem such as the second disaster with multiple entities operating under a variety of motivations and through diverse relationships can rarely be addressed effectively by any single initiative. Instead, complex problems require a coordinated array of initiatives each contributing to an overall mitigating effect. In Chapter 6, we outline two specific initiatives that could be part of an effective comprehensive strategy.

In this section we construct a structured and comprehensive framework by identifying the important entities involved in the flow of in-kind donations and incorporating their motivations, relationships and the transactions among them both in disaster and non-disaster contexts. Our framework explicitly addresses in-kind giving practices in non-disaster contexts since donor and NGO motivations and relationships are to a great extent shaped in and influenced by these contexts.

Based on our definitions in Chapter 3, we distinguish four kinds of entities: Individuals and community group donors, Corporate donors, End-use NGOs and Intermediary NGOs. We exclude Final beneficiaries from the framework as they vary widely from one disaster to the next and we assume their interests are represented by the NGOs that serve them. By the time donations reach final beneficiaries, it is too late to intervene effectively. In this framework we are only concerned about private donors and NGOs and exclude government agencies. U.S. government in-kind donations to domestic and international disaster relief are more structured and, while there is always room for improvement, are not a primary cause of or contributor to the second disaster. Many foreign governments do send in-kind relief items in response to large scale international disasters and these efforts are not always well coordinated or managed. Our framework does not address those “ad-hoc” foreign government in-kind donations.

Donor and NGO motivations for giving and accepting in-kind donations is an important part of the comprehensive understanding. We discuss donor and NGO motivations in detail in Chapter 2.

The *Relationships* among these entities are also important for managing in-kind donations both in non-disaster and disaster contexts. We argue that relationships formed outside the disaster relief context influence donor and NGO actions in disaster relief. For example, individuals and community groups regularly donate in-kind to NGOs in the Resale channel. However, that relationship does not help in disaster relief as NGOs in the Resale channel do not accept used item donations to support specific disaster relief efforts. We discuss in Chapter 4 how the lack of established relationships and channels for individuals and community groups to give in-kind in disaster relief leads to *Channel diversion*.

We similarly argue that corporate donors' relationships established with NGOs to help manage surplus inventories in non-disaster contexts influence corporate in-kind donations in disaster relief. Motivated to contribute to disaster relief, corporations turn to the intermediaries that have helped them manage surplus inventories in the past and these NGOs find it difficult to refuse in-kind donation offers for disaster relief from corporate donors with whom they have established relationships. As a consequence, NGOs sometimes push inappropriate corporate in-kind donations to disaster relief efforts.

*Transactions* refers to the specific activities involved in transferring in-kind donations from one entity to another. Unless a proposed transaction or activity is aligned with participants' motivations and supported by suitable relationships, it will fail to produce the desired outcome. The relationships among the entities in non-disaster contexts help shape transactions in disaster relief. For example, donating

	Individual donors	Corporate donors	End-use NGO	Intermediary NGO
Motivations	Donor education			
Relationships				
Transactions	NGOs refuse unsolicited donations	FEMA's National Donation Management Network portal by Aidmatrix		

3

**Figure 9:** A comprehensive framework for addressing the second disaster (with current solution approaches mapped to it)

used personal items to Resale NGOs in non-disaster contexts creates the perception and expectation that in-kind donations are valuable to humanitarian relief efforts. The challenge begins when individual and small group donors want to participate in similar giving transactions in disaster relief contexts.

Our proposed framework helps us better understand these issues and the consequences of solution strategies taken by NGOs to mitigate the second disaster. For example, in response to individual and small group donation of unsolicited items, established relief NGOs have adopted “Just say no” policies. We argue that “Just say no” is a purely transactional strategy, which does not address either donor motivations or the relationships established in non-disaster contexts. NGOs’ and advocacy groups’ work to convince donors to give responsibly by donating cash does not address donors’ motivations for choosing in-kind (over cash) discussed in Chapter 2. We map these interventions (i.e., donor education and “Just say no” policies) in our proposed framework in Figure 9.

To better manage unsolicited donations in disaster relief, FEMA has advocated using Aidmatrix’s National Donation Management Portal to facilitate donation matching. The portal addresses transactions between primarily corporate donors and NGOs (both intermediary and End-use NGOs) as shown in Figure 9.

These efforts, while valuable, are simply not enough. The framework clearly highlights our failure to address motivations and existing relationships.

## **5.5    *A tiered strategy***

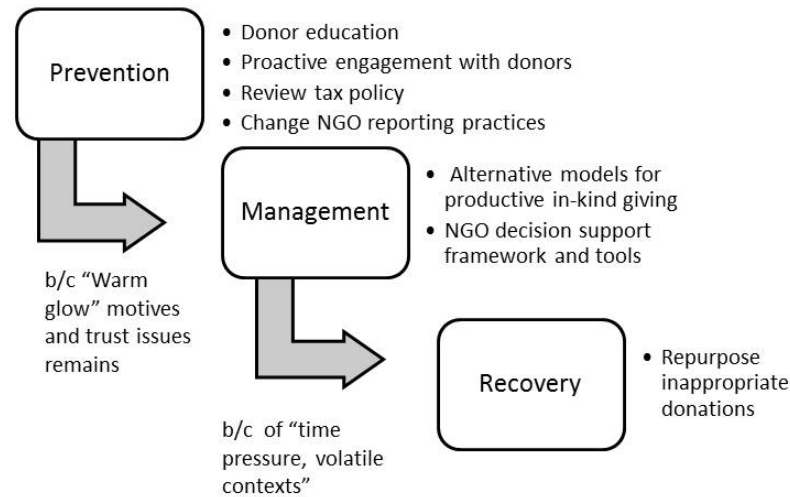
We propose a tiered solution strategy in this section to address the challenge of the second disaster. The framework helps us identify and understand gaps in our current strategies and, as discussed in Section 5.4, current interventions: “just say no”, “cash is best” and the in-kind donation portal, leave many large gaps.

FEMA and NVOAD’s strategies of providing in-kind donation guidelines and tools (e.g., the donation portal) while also promoting cash donations is an example of a two-tiered strategy. These organizations clearly recognize that “cash only” campaigns will not be 100% effective – some donors will continue to donate in-kind, and the in-kind donation guidelines and tools represent a second tier, intended to help those who cannot be dissuaded from giving in-kind in disaster relief to at least give more productively. We too recognize that there will be no silver bullet that can completely prevent the second disaster and propose systematically constructing a comprehensive tiered strategy built on the three levels of the framework. The principal tiers of our strategy are:

**Prevent** Preventive strategies primarily target motivations in an effort to deter donors and NGOs from giving and receiving inappropriate in-kind donations.

For example, we argue that “Just say no” is not a preventive strategy as it





**Figure 10:** A tiered strategy to address the second disaster

does not target motivations. Donor education, however, is a preventive strategy. Other prevent strategies may include revising corporate tax benefits for product donations and changing financial metrics and reporting practices for NGOs.

**Manage** Managing strategies target relationships and transactions with the understanding that preventive strategies will not convince all donors to give cash or only solicited items. Management strategies can be operational or strategic in nature. For example, “Just say no” policies and the donation portal are operational strategies for better managing in-kind donations.

In Chapter 6 we describe two specific strategies that could be effective components of a broader management strategy: a framework to help NGOs decide which corporate in-kind donation offers to accept and a “retail donation model”

that provides a channel for individuals and small groups to make productive in-kind donations to disaster relief. The retail donation channel is primarily a management strategy targeting the establishment and use of new relationships that enable new and more productive transactions. The decision framework is a management strategy primarily targets at better managing transactions, but can also be valuable in better managing relationships.

**Recover** Despite our best efforts to prevent it, the second disaster is likely to remain a feature of disaster response efforts for years to come. It is important to anticipate the second disaster and establish mechanisms for resolving it such as creating and facilitating a Resale channel for the items left in the second disaster. After the 2012 Sandy response, for example, many donated cloths were sent to local Salvation Army collection sites in the New York and New Jersey area. It is important to plan recovery strategies before a disaster strikes rather than trying to cobble them together after the fact.

## **5.6 Conclusion**

Research [141] suggests that resolving the puzzle of the second disaster will require systems thinking rather than simply adopting commercial supply chain practices. The forces affecting humanitarian operations are different and are driven by more complex motives than simply profit maximization. Our proposed framework provides a simple, practical and comprehensive description of the problem. To our knowledge, no other framework proposed in the literature similarly addresses the full scope of the issues and actors contributing to the second disaster. The framework can also serve as a basis for policy makers to plan a structured solution approach rather than implementing various ideas in the hope of finding the right solution.

## CHAPTER VI

# PROPOSALS FOR PROMOTING MORE PRODUCTIVE IN-KIND GIVING PRACTICES AND MANAGEMENT

### *6.1 Introduction*

In this chapter, we describe two approaches for mitigating the second disaster. These approaches are intended as part of a larger tiered strategy as proposed in Chapter 5. These interventions are intended to prevent and manage in-kind donations in disaster relief and, thereby, reduce the impact of the second disaster. We propose a framework to help NGOs make better and more timely decisions about which in-kind donation offers to accept. Our decision framework not only streamlines the task of reaching a consensus within the organization, reducing the burdens on NGO managers in the midst of a disaster relief effort, but also helps them screen out more inappropriate donations. We also propose an alternative in-kind donation channel for individual donors, which, by giving individual donors a productive way to contribute in-kind, not only reduces the second disaster, but simultaneously increases the flow of valuable and appropriate supplies to the disaster response effort.

In Section 6.2, we describe the challenges NGOs face in assessing in-kind donation offers. We propose a decision framework in Section 6.3 to help NGOs better assess donation offers. Our framework also provides more meaningful metrics for assessing the effectiveness of an NGO's in-kind program over time. We propose a Retail Donation channel in Section 6.5 and describe a remarkably successful, on-line version of it that was implemented during the 2012 super storm Sandy response.

## ***6.2 NGO challenges in in-kind donation assessment***

Deciding whether or not to accept a donation offer requires balancing the competing and often incomplete assessments of how well it matches project needs, the importance or potential of the relationship with the donor, the market value of the donation and the estimated costs of distributing the donation. In most cases, fund raising staff either accept the offer based on the importance of the donor or pass it along to project or program managers for consideration. Sometimes, NGOs accept the donation first and then attempt to match it a project's needs. The details of the process vary from NGO to NGO, but in most cases decisions are made on a case by case basis with little structure or policy in place to guide the decisions. Our research and interviews with NGOs suggest even the most established NGOs struggle to balance these conflicting objectives and lack effective tools for measuring how well the process is working.

The program managers who support the NGO's projects want to ensure that the organization only accepts in-kind donations that are appropriate and can be delivered effectively, while the fund raising team is concerned about how the decision will affect future relationships with the donor. Fund raisers are often willing to accept low-priority or even inappropriate items in the hopes of growing a relationship that will eventually yield more appropriate in-kind donations or even cash donations. And, since fund raising targets and NGO financial metrics are almost exclusively based on the market value of donations, it should come as no surprise that the market value of a donation can influence the decision of whether to accept it or not. A \$10 million product donation is much easier for a fund raiser to secure than \$ 10 million in cash grants, but has the same financial impact on the organization and often counts in the same way towards fulfilling the fund raiser's annual goals. These competing objectives between program managers and fund raising managers lead to tensions in the organization that can make donation acceptance decisions heated, time consuming and complicated. The process is even more complex after a large scale disaster when

many donors contact several NGOs simultaneously and award the donation to the first credible respondent to accept it.

Currently, the two most widely used tools for measuring the effectiveness of in-kind donation programs are the total market value of donations and some measure of the number of people benefiting from the donations. Neither considers the appropriateness or social impact of the donations and so both naturally influence NGOs to emphasize other considerations, like market value and donor relationships in determining which offers to accept.

We propose a decision framework to help NGOs better manage the trade-offs and formalize the decision process for in-kind donation offers.

### ***6.3 Framework for evaluating in-kind donations***

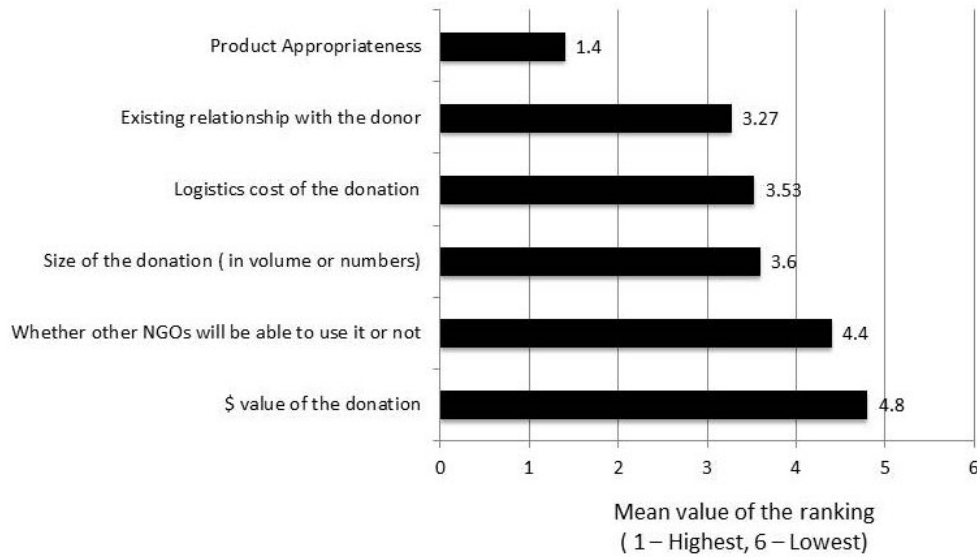
We propose a framework that classifies each in-kind donation offer based on both the appropriateness of the product or service and the importance or potential of the relationship with the donor. In our 2012 NGO survey, End-use NGOs <sup>1</sup> identified donor relationship as the second most important factor in deciding which donation offers to accept (see Figure 11).

Holguín-Veras et al. [117] suggest the donation classification system developed by PAHO, which classifies donations into in three categories: 1. Urgent or High Priority (HP) 2. Non-urgent or Low-priority (LP) and 3. Non-priority (NP) items, based solely on their usefulness.

We propose a similar system, which classifies donation offers as *Necessary*, *Useful*, *Non-qualified* or *Undefined* based on their appropriateness. Necessary products or services are those that the NGO generally purchases for its projects. Similarly

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<sup>1</sup>We categorize NGOs that distribute 70% or more directly to *final beneficiaries* are End-use NGOs

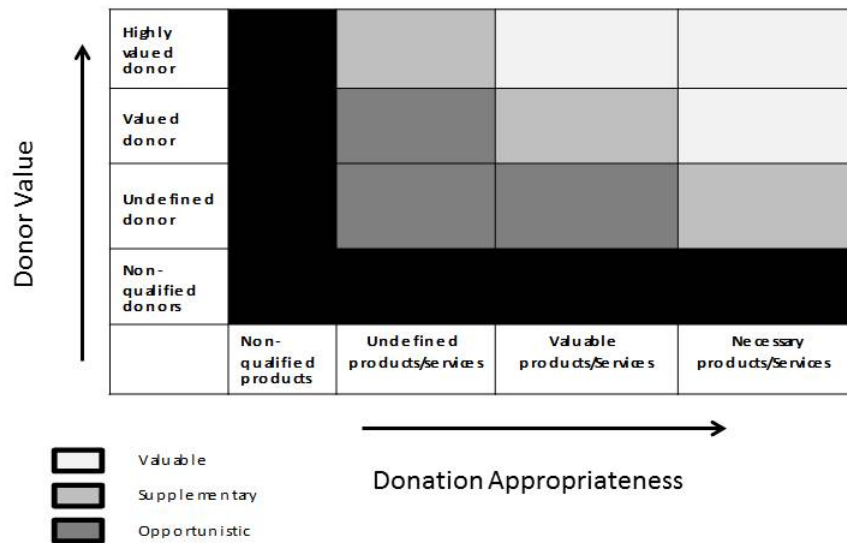


**Figure 11:** Ranking of factors affecting End-use NGO's donation acceptance decision

*Non-qualified* donations are those that NGOs would never accept because of policy conflicts or other factors. For example, NGOs that support or promote breast feeding would not accept donations of baby formula. *Useful* items are those that are neither Necessary nor Non-qualified, but can support the NGO's projects. Any donation that does not fall into one of these categories is characterized as *Undefined*.

Since NGOs also consider the importance of the relationship with the donor, we extend the classification scheme to address this dimension of the decision process. We differentiate donors into four categories: *Highly valued*, *Valued*, *Undefined* and *Non-qualified* donors. Generally, *Non-qualified* donors are those that do not satisfy the NGO's donor criteria. For example, many NGOs do not accept donations from tobacco companies or from companies that are involved in the manufacture or distribution of weapons. Each NGO will have its own criteria for distinguishing *Highly Valued* and *Valued* donors, based on the historical donations or estimates of future donation potential. Donors that do not fall into any of these categories are characterized

as *Undefined*.



**Figure 12:** In-kind donation decision matrix

The process of establishing these categories for both products and donors should be transparent and understandable to both fund raising managers and program managers and should be accompanied by the development of clearer guidelines and policies defining the different categories. It is not an exercise that should be completed during the heat of a disaster response.

We represent the two different decision dimensions, appropriateness and donor relationship, as the dimensions of a matrix as shown in Figure 12. Donations that fall in the upper right corner of the matrix are the most desirable. These are donations of necessary products or services from highly valued donors. Donations that fall in the

lower left corner are the least desirable. These are donations of undefined products from non-qualified donors. We simplify the decision process by using the matrix to categorize each donation offer into one of three categories: *Valuable*, *Supplementary* or *Opportunistic* donations.

#### *6.3.0.1 Valuable donations*

Valuable donations are ideal in-kind donations that simultaneously help advance the NGO's mission and build relationships with valued donors. A relief NGO engaged in ensuring access to clean drinking water, for example, might consider donations of water purification packets from a Global 500 company such as Proctor and Gamble as Valuable donations or a food bank might consider regular donations of a variety of foods from a major retailer such as Walmart as Valuable donations.

#### *6.3.0.2 Supplementary donations*

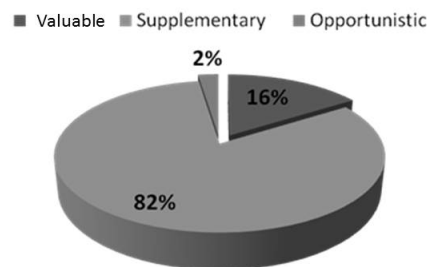
Supplementary donations are either undefined products coming from a highly valued donor or useful items coming from valued donors. These items should be accepted based on their operational feasibility, i.e., the programmatic impact of the donation relative to the cost involved in processing it. Each organization should establish its own thresholds for such measures. ACCORD's 2010 "Gifts in kind Standard" [?] suggests a minimum threshold of 4 (meaning the programmatic impact should be valued at at least four times the cost of distributing the gift) based on their members' experiences. While the ACCORD standards do stress the programmatic impact, in practice this tends to be translated into the market value of the donation, which, for reasons we have discussed, can lead to poor choices. Feeding America, on the other hand simply uses the weight of the donation, influenced to some extent by simple measures of its nutritional value and contribution to a balanced diet, in assessing the impact of in-kind donations.



### 6.3.0.3 *Opportunistic donations*

Opportunistic donation offers are generally neither important to the program managers nor to the fund raisers for relationship building. Many inappropriate corporate donation offers to disaster relief are opportunistic donations. There are two possible explanations for why such offers are accepted in disaster relief: 1. The market value of the donated products and its impact on the NGO's financial metrics or 2. Poor decisioning making. Our decision framework helps identify opportunistic donations and can reduce the second disaster by helping NGOs avoid them in disaster relief. In rare cases, it may make sense to work with the donor to shift such donations to long term recovery efforts for the disaster victims, but that should be managed carefully so that the donation does not impede disaster relief efforts.

#### **Portfolio of GIK received by \$ value**



**Figure 13:** In-kind donation received by a NGO for the 2010, Haiti response

## **6.4 *Measuring in-kind donation impact***

The matrix categorizes donations based on the dual objectives of appropriateness or program impact and donor relations. NGOs can use this classification scheme to

measure and manager the effectiveness of their in-kind donations in meeting overall objectives. For example, in 2010 we used the matrix to categorize donations to an established U.S. based international NGO that received approximately \$ 2.5 million worth of corporate in-kind donations including vehicles, blankets, mattresses, etc. as part of the Haiti earthquake response. Only 16% of the donations (by market value) were characterized as Valuable. The vast majority (82%) were Supplementary (see Figure 13).

Although program managers largely expected the results, fund raising managers were surprised and a bit disappointed to see how much of the donations were Supplementary. But program managers also learned in the process. Some of the Undefined products categorized as Supplementary donations proved particularly useful and those products were subsequently added to the list of Necessary products. Using the matrix is a process of continuous refinement and improvement. We recommended that the organization set a target for the percentage of donations falling in the Valuable category. Armed with a clearer understanding of the metrics and the goals, the corporate fund raising managers can more effectively work with donors to achieve that target.

Without such metrics, fund raisers will continue to accept high market value donations from Valued donors without much concern for appropriateness. Upset by the challenges and embarrassments such in-kind donations create in the field, program managers will complain until the situation becomes so dire the organization finally establishes a policy of not accepting any in-kind donations...at least for several years until an important donor offers products with a high market value and the cycle begins again.

## **6.5    *A Retail Donation Model***

People want to help disaster victims and, for many reasons, including the motivations we discussed in Chapter 2 and their experiences donating in non-disaster contexts,

people prefer to donate in-kind to disaster relief. Unfortunately, as we explained in Chapter 3, there is no formal channel for in-kind donations from individuals and community groups to disaster relief. The absence of that channel is a primary contributor to the second disaster.

The goods individuals typically donate, used clothing and household items, are inappropriate for disaster relief and better suited to the resale channel. But as we explained in Chapter 3 there is no established resale channel for disaster relief and, even if there were, it would not provide the kind of immediate impact these donors seek. They want to know their donations are tangibly and immediately helping the disaster victims.

An effective tiered strategy to prevent the second disaster then cannot simply educate individuals and small groups about appropriate giving practices and the benefits of donating cash, it must also provide these donors with effective channels for in-kind giving in disaster relief. In this section, we propose just such a channel, “The Retail donation model”, that allows individuals to donate in-kind to disaster relief (and in non-disaster contexts) productively, conveniently and in a timely and effective manner.

The model is simple: NGOs establish a “donation registry” with retailers identifying specific items required for the relief response and the quantities in which they are needed. Individual donors purchase and donate those items through the retailers who deliver them directly to the disaster relief effort. The model can be applied both through brick and mortar stores, as we describe in Section 6.9, and through e-commerce sites, as we describe in Section 6.6.

During the 2012 super-storm Sandy response, a grass roots volunteer relief organization, Occupy Sandy, created just such a registry through the on-line retailer Amazon and collected over 30,000 items valued at nearly \$750,000 in a matter of a few weeks. The success of this effort proves the concept and serves as a pilot for

future implementations.

## ***6.6 Donation Registry: A case study***

In the first few weeks after super-storm Sandy, a trio from Brooklyn generated three quarters of a million dollars worth of useful in-kind donations by repurposing Amazon’s wedding registry as a donation registry (see Figure 14). The group partnered with Occupy Sandy, which provided a grass-roots distribution network. They chose Amazon because most of the items needed in the early stages of the response, including basic relief supplies such as blankets, flash lights, batteries, socks, baby formula, hand warmers, thermal pants and cleaning and construction tools (large trash bags, wheel barrows, hammers, and even generators) were available on Amazon’s e-commerce site.

The group publicized the link to the registry through social media networks (Facebook and Twitter), blogs, radio-shows, and various print and digital media outlets. A novel idea, the registry link was picked up by the national media, including The New York Times [99], The Atlantic [108], Bloomberg News [92], the Huffington Post [128] and others [100]. Within 72 hours, people donated over 10,000 items valued at over \$200,000 through the registry. This rapid and targeted response enabled the volunteer group to start relief operations quickly.

Donations poured in starting the second day and, thanks to second day delivery, three UPS trucks filled with valuable donations arrived at the Church of St. Luke and St. Matthew (nicknamed 520 by volunteers) in Clinton Hill, Brooklyn. The church served as Occupy Sandy’s main distribution center for receiving and processing donated items for distribution to field offices in the Rockaways, Staten Island and Coney Island.

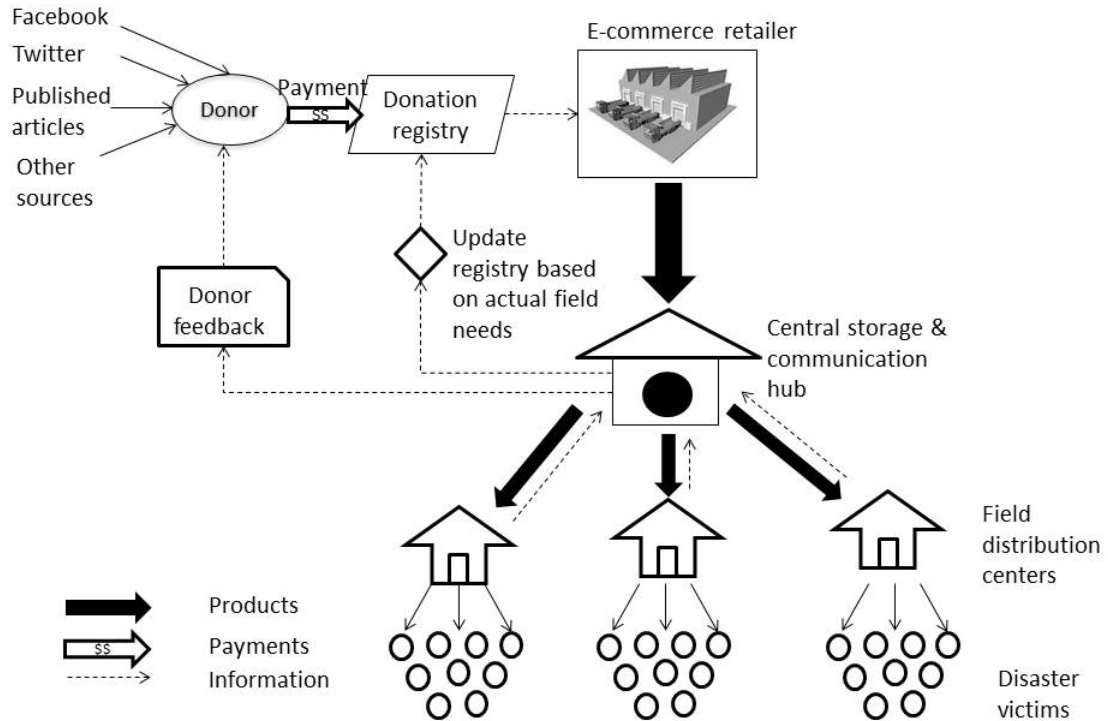
Using personal vehicles and rented vans, volunteers shuttled supplies between 520 and the field offices in response to specific requests and a coordinator updated the registry to reflect requests from the field and supplies at 520. In the first few days,

the field offices focused mainly on providing immediate comfort to victims with socks, thermal clothing, flash lights, blankets, sleeping bags, heaters, etc. As the days passed and other NGOs started supplying these items, the field offices shifted their focus to clean-up and rebuilding operations. The registry coordinator added tools and home repair supplies such as safety glasses, work gloves, respirators, hammers and electric saws.

Despite concerns that duplicate registries might confuse donors, the group subsequently opened separate registries for each of the three field offices to avoid shuttling donations from 520. The group also created a donation registry with products from local businesses with the goal of helping both the victims and the local economy at the same time. This involved building a separate e-commerce platform without the name recognition of Amazon. While this local registry did receive some donations, it was not nearly as successful as the Amazon registry and required much more work.

As the case study illustrates, a donation registry with online retailers provides an effective tool to help relief organizations solicit targeted in-kind donations in disaster response. The registry also helps individual donors, who prefer to donate in-kind, contribute more productively to relief efforts. The registry allowed Occupy Sandy volunteers to control the flow of donations by adding and removing items, or changing the requested quantities based on the actual needs at that time. Amazon's established delivery process ensured the timely delivery of donated items.

Although Amazon does offer a non-profit wish list, the team chose to use the wedding registry instead for better control and marketing. For example, it was important for the group to connect with donors to provide feedback on their donations and the wedding registry provides this via the Thank You List. The non-profit wish list does not provide this functionality. People are also more familiar with wedding registries.



**Figure 14:** Schematic diagram of the retail donation model with an e-commerce retailer.

## 6.7 Implementation challenges

Although the donation registry model can be applied to any domestic disaster response, the team did face several challenges and learned several lessons during the Sandy relief effort:

### 6.7.0.4 Order consolidation

Amazon separately packed and shipped individual donations, creating additional work at Amazon’s DC and for the volunteers, who had to open, sort and stock items one by one and dispose of thousands of boxes, packing materials, etc.

#### *6.7.0.5 Refresh rate of the registry*

The team faced challenges with the registry, as it did not reflect purchases in real time. In some cases, the time lag between a purchase and the corresponding update was considerable.

#### *6.7.0.6 Shipping visibility*

Although donors could track their packages, Occupy Sandy had little or no visibility of the incoming donations unless donors emailed their tracking numbers. Even then, individually tracking tens of thousands of donations was difficult and time consuming for volunteers.

#### *6.7.0.7 Last mile traceability*

Occupy Sandy did not have its own tracking and documentation tools. Visibility and accounting essentially ended once the donated items left 520. Volunteers did photograph the distribution operations and shared those photos with donors via blogs, social media and emails, but the organization did not keep records tracing a donation from a specific donor to a specific beneficiary.

#### *6.7.0.8 Tax reporting*

Occupy Sandy was not a registered 501(c)3 corporation and so donations to the effort were not tax deductible. Even if Occupy Sandy had been a registered non-profit, the Amazon registry did not provide sufficient information to connect specific donors to specific donations and to provide those donors with gift acknowledgment letters.

#### *6.7.0.9 Profits*

Amazon sold the items purchased on the registry at full retail price and did not offer special terms for transportation. This raises the quite reasonable concern among donors that the company earned a profit from their charitable contributions.

#### *6.7.0.10 Returns*

The changing estimates of needs and delays in refreshing the registry meant many items arrived in greater quantities than were required – a common issue in disaster relief. It was not clear how Amazon’s return process would work in this case: Would funds for returned items go back to the donor or would they go to Occupy Sandy in the form of a “store credit” that the organization could apply to future purchases from Amazon?

### ***6.8 Donation portal vs. donation registry***

In contrast to a registry like the one Occupy Sandy implemented, a central donation portal such as Aidmatrix’s National Donations Management Network portal is important for managing unsolicited donation offers, especially bulk inventory donations from businesses. A portal gives donors the freedom to offer what they have rather than forcing them to choose from among a prescribed list of items. This freedom can be valuable to donors and NGOs alike. For example, after the 2010 Haiti earthquake, CARE USA accepted a company’s offer of generators through the Aidmatrix donation portal. Although CARE had not posted a request for generators, they proved to be one of the most valuable in-kind donations the organization received during the Haiti relief effort.

Not all corporate donations are valuable or appropriate for disaster relief and many small groups who organize donation collection events also post offers – usually of unsorted mixed supplies of various items. NGOs find the effort of sorting through the thousands of well-intentioned, but inappropriate postings frustrating and time-consuming. Even when they do find a potentially valuable donation, it is rarely described to the level of detail required to determine whether accepting it is worth the cost and risk involved. Does the donation include the transportation costs, or



**Table 5:** Difference between FEMA’s donation portal and the retail donation registry

Donation Portal	Donation registry
Donors choose donation items	Relief agencies choose donation items
No reliability of donated products/donation offers	Reliability ensured by the retailers
Donation offers are based on what donors want to donate	Donated items are based on the actual need on the ground
NGOs must decide whether or not to accept the donation	Donors decide whether or not to make the donation
No established delivery mechanism	Commercial delivery through the retailer
Response slowed by heavy demands on NGO staff	Limited demands on NGO staff ensure a fast, seamless donation process
More suitable for business inventory donations	More suitable for individual and small group donations

must the NGO cover those? Is the donor an appropriate partner for the NGO? A donation registry like the one used by Occupy Sandy eliminates most of these issues and concerns for the NGO.

A donation portal can be made more effective with additional services and tools to validate the donation offer and NGO’s needs. Some improvement opportunities include: pre-registration and verification of donors and NGOs, donor classification based on previous donation history or even a formal donor certification process ensuring the donor understands good donation practices, collecting feedback from NGOs to close the loop on the donor classification process, etc. These enhancements can significantly increase the value of the donation portal and make in-kind giving faster, more efficient, transparent, and easier for both NGOs and donors.

### ***6.9 Brick and mortar version of the retail donation model***

A donation registry can also be applied to brick and mortar stores, where customers can purchase and donate marked registry items. Many retailers and NGOs currently collaborate to organize similar donation collection events for non-disaster contexts

such as the U.S. Marine Corp’s “Toys for Tots” program [6], which collects toys for disadvantaged children for the holiday season. The small steps of collecting emergency relief items instead of toys and ramping up the program after a disaster rather than before the holiday season could have a profound impact not only by reducing the second disaster, but also by creating a significant stream of timely and valuable relief supplies.

A donation registry creates opportunities for retailers to engage employees in philanthropic efforts and strengthen relationships with local communities. The registry provides a productive outlet for the community’s good intentions and creates an association between the “warm glow” individuals feel when they give and the store where they made that donation. Store employees and local volunteers can enjoy the personal engagement of sorting, packing and sending donated items to the disaster site through the retailer. The involvement of large retailers gives donors greater confidence that their donations will go to the disaster relief effort and be used for the intended purpose.

## **6.10 Conclusion**

In this chapter, we present two intervention ideas to reduce the flow of unsolicited donations in the disaster response that can be effective components of a larger tiered solution strategy as proposed in Chapter 5. The donation assessment matrix can help NGOs sift through corporate donations in a structured way and thus can help *Prevent* some inappropriate donations from entering disaster relief channels. The retail donation model can help *Prevent* individuals from making inappropriate in-kind donations by providing an alternative, productive channel for them to contribute needed items and thus can help *Manage* in-kind donations in disaster relief. We describe a successful on-line implementation of the model with Amazon in 2012 after super-storm Sandy and discuss some of the challenges encountered in the process.

## **CHAPTER VII**

### **CONCLUSIONS AND FUTURE RESEARCH DIRECTIONS**

In-kind donations to NGOs are likely to continue and even grow as many donors prefer to donate in-kind to various social causes. The dominant theory in individual giving suggests the motive for giving may not be purely altruistic, rather it is a mix of altruism and donor's self-interest. Donating in-kind can be preferable to donors as it is often more economical, comparatively resistant to fraud or misuse and provides psychological and social benefits. Donating goods and services provides companies with opportunities for employee engagement, greater publicity and disposal of surplus inventories. Donation to charity is increasingly becoming the preferred choice of disposal for surplus inventories and used personal items. Many NGOs have embraced in-kind donations and have created different operating models and distribution channels to employ them.

The challenges of unsolicited material donations in disaster relief are related to donor and NGO motivations for giving and accepting in-kind donations. The Re-sale channel that allows individual donors to give in-kind does not accept those same donations for disaster relief. The absence of any formal channel compels many individual donors to create their own ad-hoc delivery mechanisms, including sending their donations to the disaster site without a consignee. Companies on the other hand send donations directly to national and local disaster relief NGOs and through intermediary NGOs. Although Direct distribution NGOs are generally reluctant to accept individual in-kind donations, they are more open for accepting product donations from companies primarily because of an existing relationship with the donor or the

opportunity to build a relationship. Besides, the higher value of corporate donations often motivates NGOs to accept these donations to achieve financial targets.

Current approaches for addressing the second disaster such as campaigns for “cash only” donations and FEMA’s National Donation Management Network portal fail to adequately address donor motivations, economic incentives and the current channel structure for in-kind donations in disaster relief. Solving the second disaster requires NGOs and donors to change their current behavior and so long as education campaigns and donation portals do not change motivations, incentives or opportunities, they will not profoundly influence behavior. We argue that solving this problem will require more comprehensive thinking, a structured strategy and a comprehensive set of carefully targeted interventions. We develop just such a comprehensive framework and propose tiered strategy for reducing the second disaster, including two specific interventions that could be key components of that strategy. The work of this thesis lays the foundation for future research and innovative solutions in this very important but understudied area. We summarize some of the future research and intervention areas here.

This thesis is primarily focused on improving the management of in-kind donations in disaster relief for NGOs. We do discuss various ways corporate donors can use product donation for strategic philanthropic engagement (e.g. WalMart’s “Fighting Hunger Together” and Pfizer’s Zithromax donations to fight blinding Trachoma), but do not propose specific strategies for donors in this thesis. We feel this is an important next step. Helping donors integrate in-kind donations in particular and philanthropy more generally into their larger corporate strategies can help unlock enormous reserves with tremendous potential value for humanitarian relief and development efforts.

Our research focus on in-kind giving by private donors can be expanded to cover other areas such as government in-kind giving in disaster relief. We address some aspects of government in-kind giving in our discussion of donor motivations , however,

we do describe those channels of distribution and how they interact with other relief organizations. Future research in this area should address government donation motivations and channels and their overall impact on humanitarian logistics operations.

We propose a new “retail donation” channel to allow individuals to make targeted in-kind donations in disaster relief. A on-line retail donation model was successfully implemented during the 2012 Sandy response. Future research in this area needs to build on and refine that initial implementation and explore the feasibility of applying such models in “brick and mortar” settings.

The increasing use of social media during disaster relief operations points to opportunities to monitor and influence donor activities and preferences for helping the victims. Social networks have enabled donor groups to bypass traditional NGOs and help people directly. This new grass roots power can potentially lead to an even larger second disaster. On the other hand, properly harnessed, social networks may ultimately prove a powerful force for good in humanitarian response. Witness the power of Facebook and Twitter in promoting Occupy Sandy’s donation registry. We feel that a critical area of future research is to better understand and shape the impact of social media on in-kind giving practices and channels of distributions.

## APPENDIX A

### 2012 NGO PROFESSIONAL’S GIFTS-IN-KIND MANAGEMENT SURVEY

#### *A.1 Survey administration and participants*

The survey was distributed to member NGOs of the Accord Network and of the Partnership for Quality Medical Donations (PQMD). Accord Network is a membership organization of 60 Christian faith based NGOs that work in various relief and development areas. The Network has organized several Gifts In Kind (GIK) Conferences since 2009, to per our knowledge the only conferences of this kind. PQMD has 15 NGO members some of which are also members of the Accord Network. We also invited a number of intermediary NGOs that are not part of either of these groups but did participate in previous GIK conferences.

The survey invitation was sent out on July 20, 2012 and the last opportunity to respond was originally August 04, 2012, but was later extended to August 13,2012 to allow greater participation. Respondents were promised anonymity to encourage candid responses about the their GIK related management practices ( the invitation email is attached). To maintain the promised anonymity, we do not include the names of the organizations in this thesis. However, together these organizations receive over \$ 1.5 billion in annual in-kind donations from business donors. The survey does not include organizations that primarily receive in-kind donations from individuals and community groups for resale .

We received confirmation from 24 NGOs over email expressing their interest to participate. We used the “Qualtrics” survey software to conduct the survey. We received a total of 34 complete responses from 29 unique IP addresses. Further analysis

of the IP addresses suggests 3 organizations had 2 participants respond and 1 organization had 3 participants respond. We could not resolve additional 5 responses ( the difference between the number of unique IP addresses and the number of NGOs that confirmed their participation). They may represent the same organizations with respondents participating from remote locations and hence having different IP addresses or they may represent different NGOs.

The survey questions with results are attached in Section A.3.

## ***A.2 Survey invitation email***

Dear fellow past GIK summit attendees and friends:

I invite you all to participate in a short GIK management survey as part of Georgia Tech's research project in GIK Management for NGOs. The survey result will be used to validate some of decision models that we have developed for GIK management to help NGOs strategically manage GIK donations.

The goal of the survey is to capture some of the operational and strategic challenges of GIK operations in a structured format. The survey result will identify common challenges, practices and can potentially serve as a basis for a future bench-marking study.

### **Benefit and cost to you:**

The survey result can serve as a reference to GIK managers about current practices and and challenges in the industry. The consolidated survey result can help you to separate common challenges from your organization specific challenges. There is no monetary benefit or cost associated with the participation.

### **Survey administration and use of the survey result:**

This will be an anonymous survey through an online survey tool (Qulatrics) to encourage respondents to reveal their actual practices and challenges in GIK management without risking their organization's reputation. All the survey responses will be collected in a fashion so that there is no one to one connection between a response and the organization.

The primary use of the survey data is to validate some of our hypotheses in GIK research and decision models that we have developed at Georgia Tech to help NGOs and donors make better decisions. However, the survey result will be shared immediately with the participants for their internal use.

### **Time required to participate:**

The survey has only limited number of questions and is designed to take less than 20



minutes to complete.

**Survey schedule:**

Participation confirmation deadline : Wednesday July 25th, 2012

Survey ends: Midnight Saturday, August 04, 2012

Result available (via email) : Monday Aug 06, 2012

If you are interested to participate, Please reply to this email by Wednesday (July 25, 2012) with your organization's name. Once you confirm your participation, I will send you the online survey link to participate in this survey.

I personally met many of you over the last few years through GIK summits and conferences. I encourage you all to participate in this survey. A large number of participation will only benefit everyone in the industry. If you have any further questions regarding the survey, please feel free to call me at 678-538-5133 or email me (mislam6@gatech.edu).

Thank you.

### ***A.3 Survey questions and responses***

The survey questions and results are as follows:

1. What Side of GIK operation you are involved in ?

#	Answer	Responses	Percentange(%)
1	GIK fund-raising and sourcing	11	33.33%
2	Preparing GIK offers for projects	7	21.21%
3	Logistics and GIK delivery	7	21.21%
4	All of the above	22	66.67%

2. What is the size of your GIK program ( in \$ value/year) ?

#	Answer	Responses	Percentange(%)
1	Below \$10 million/ year	7	20.59%
2	Between \$10 to \$20 million / year	4	11.76%
3	Between \$ 20 to \$30 million/ year	2	5.88%
4	Between \$30 to \$40 million/year	0	0.00%
5	Between \$40 to \$50 million/year	1	2.94%
6	Between \$50 to \$60 million/year	3	8.82%
7	Between \$60 to \$70 million/year	2	5.88%
8	Between \$70 to \$80 million/year	0	0.00%
9	Between \$80 to \$90 million/year	1	2.94%
10	Between \$90 to \$100 million/year	0	0.00%
11	Over \$100 million/year	14	41.18%

3. What is the approximate % breakdown of your GIK donation types (product and services, not including general volunteering) ?

#	Answer	Mean	Std. Deviation
1	Product donations	91.79	13.19
2	Professional service donations	7.74	13.24
3	Other types of GIKs	0.47	1.60

4. Approximately, what percentage of the total revenue comes from GIK for your organization ?

#	Answer	Responses	Percentage(%)
1	Less than 10%	6	17.65%
2	Between 10% to 20%	2	5.88%
3	Between 20% to 30%	5	14.71%
4	Between 30% to 40%	1	2.79%
5	Between 40% to 50%	1	2.79%
6	Between 50% to 60%	4	11.76%
7	Between 60% to 70%	0	0.00%
8	Between 70% to 80%	1	2.94%
9	Between 80% to 90%	9	26.47%
10	Over 90%	5	14.71%

5. Approximately, what is your total GIK operational cost as a % of the total GIK revenue ?

#	Answer	Responses	Percentage (%)
1	Less than 1%	9	26.47%
2	1% to less than 3%	11	32.35%
3	3% to less than 5%	6	17.65%
4	5% to less than 7%	4	11.76%
5	7% to less than 9%	1	2.94%
6	Over 9%	3	8.82%

6. Which one of these choices closely match your organization's program focus ?

#	Answer	Responses	Percentage (%)
1	Over 90% of total budget in development projects	11	32.25%
2	80% development, 20% relief	8	23.53%
3	60% development, 40% relief	6	17.65%
4	40% development and 60% relief	5	14.71%
5	80% relief, 20% development	4	11.76%
6	Over 90% in relief operations	3	8.82%

7. Approximately how many 40 ft ocean container equivalent GIKs you receive every year ? (use 20 pallets = 1 ocean container (40 ft.), 1 Truckload = 1.3 40 ft. ocean container for estimation purposes)

#	Answer	Responses	Percentage (%)
1	Less than 10	3	8.82%
2	between 10 to 50	9	26.47%
3	between 50 to 100	7	20.59%
4	between 100 to 150	2	5.88%
5	between 150 to 200	1	2.94%
6	Over 200	12	35.29%

8. Do you directly distribute most ( approx. over 70%) of your GIKs to final beneficiaries ?

#	Answer	Responses	Percentage (%)
1	Yes	15	44.12 %
2	No (we distribute most of our GIKs through partners	19	55.88%

9. What is the approximate % breakdown of your GIK source ?

#	Answer	Mean	Std. Deviation
1	Original donor	66.12	38.08
2	Purchased GIK with paid service fees	14.85	26.51
3	From other NGOs without any service fees	15.58	28.22
4	Other sources (not listed here)	4.35	15.70

10. What is the approximate % breakdown of your GIK donations by destinations ?

#	Answer	Mean	Std. Deviation
1	North America (US domestic)	18.97	30.40
2	Africa	26.79	28.29
3	Latin America	22.30	26.17
4	Asia	10.41	18.64
5	Other	22.18	32.00

11. Approximatey what fraction of your GIK donations would you say are unsolicited ? (i.e. not based on any specific program request ?)

#	Answer	Responses	Percentage (%)
1	0-25% of total \$ value	20	58.82
2	25-50% of total \$ value	3	8.82
3	50-75% of total \$ value	4	11.76
4	Over 75% of total \$ value	7	20.59

12. Please re-organize this list of factors as it relates to your GIK acceptance decision (the most important factor for decision making should be at the top of the list)

#	Answer	Mean	Std. deviation
1	Product Appropriateness	1.47	1.05
2	Whether other NGOs will be able the use it or not	3.24	1.95
3	Logistics cost of the donation	3.82	1.11
4	Existing relationship with the donor	3.88	1.32
5	Size of the donation ( in volume or numbers)	3.88	1.34
6	\$ value of the donation	4.71	1.45

13. Rank the following GIK challenges as it relates to your operation

#	Answer	Mean	Std. deviation
1	Getting appropriate products for programs	1.74	1.44
2	Custom clearance for international donations	3.94	2.12
3	Visibility of the donation and donor reporting	4.00	1.72
4	Transportation and storage in recipient countries for international donations	4.03	1.66
5	Valuation of the donated items	4.06	1.34
6	Lack of logistics infrastructure to collect and deliver donated products	5.12	1.34
7	Saying "No" to important donors for inappropriate donations	5.12	1.81

14. How would you characterize your current GIK solicitation activities ?

#	Answer	Responses	Percentage (%)
1	Completely reactive (only responding to donation offers)	1	2.94%
2	Mostly reactive	8	23.53%
3	Almost equal mix of both reactive and proactive in nature	9	26.47%
4	Mostly proactive	12	35.29%
5	Absolutely proactive (only targeted donation solicitation)	4	11.76%

15. Do you receive cash donations from your GIK donors ?

#	Answer	Responses	Percentage (%)
1	Never	4	11.76%
2	Occasionally	23	67.65%
3	Fairly Many Times	5	14.71%
4	Very Often	2	5.88%
5	Always	0	0.00%

16. How often you report back to your GIK donors about their donation impact ?

#	Answer	Responses	Percentage (%)
1	Never	0	0.00%
2	Rarely	0	0.00%
3	Sometimes	7	20.59%
4	Most of the Time	2	50.00%
5.	Always	10	29.41%

## APPENDIX B

### NGO DIFFERENCES IN DECISION PRIORITIES AND CHALLENGES BASED ON ORGANIZATION CHARACTERISTICS

#### *B.1 Difference of factors influencing NGO GIK acceptance decisions*

**NOTE:** The mean value shows the average ranking. Lower value means higher importance

1. Ranking of factors related to GIK acceptance decision by NGO grouped by their relationship with the original donor ( N =34)

Ranking of factors for organizations receiving 70% or more of donations from original donors (N =23)	Mean value (scale 1 - 6)	Ranking of factors for organizations receiving less than 70% of donations from original donors (N=11)	Mean value (scale 1 - 6)
Product Appropriateness	1.35	Product Appropriateness	1.73
Whether other NGOs will be able the use it or not	3.09	Whether other NGOs will be able the use it or not	3.55
Existing relationship with the donor	3.61	Logistics cost of the donation	3.55
Logistics cost of the donation	3.96	Size of the donation ( in volume or numbers)	3.64
Size of the donation ( in volume or numbers)	4.00	\$ value of the donation	4.09
\$ value of the donation	5.00	Existing relationship with the donor	4.45



2. Ranking of factors related to GIK acceptance decision by NGO grouped by their relationship with final beneficiaries ( N =34)

Ranking of factors for organizations distributing most of their donations directly to beneficiaries (N =15)	Mean value (scale 1 - 6)	Ranking of factors for organizations distributing most of their donations through partner NGOs ( N=19)	Mean value (scale 1 - 6)
Product Appropriateness	1.40	Product Appropriateness	1.53
Existing relationship with the donor	3.27	Whether other NGOs will be able the use it or not	2.32
Logistics cost of the donation	3.53	Logistics cost of the donation	4.05
Size of the donation ( in volume or numbers)	3.60	Size of the donation ( in volume or numbers)	4.11
Whether other NGOs will be able the use it or not	4.40	Existing relationship with the dono	4.37
\$ value of the donation	4.80	\$ value of the donation	4.63

3. Ranking of factors related to GIK acceptance decision by NGO grouped by their size of the GIK program ( \$ value/ year) ( N =34)

Ranking of factors for organizations receiving more than \$ 100 million GIK / year (N =14)	Mean value (scale 1 - 6)	Ranking of factors for organizations receiving less than \$100 million GIK /year (N=20)	Mean value (scale 1 - 6)
Product Appropriateness	1.50	Product Appropriateness	1.45
Whether other NGOs will be able the use it or no	2.71	Logistics cost of the donation	3.55
Size of the donation ( in volume or numbers)	3.57	Whether other NGOs will be able the use it or not	3.60
Existing relationship with the donor	4.00	Existing relationship with the donor	3.80
Logistics cost of the donation	4.21	Size of the donation ( in volume or numbers)	4.10
\$ value of the donation	5.00	\$ value of the donation	4.50

## ***B.2 Difference in GIK operational challenges faced by NGOs***

1. Ranking of GIK operational challenges faced by NGO, grouped by their relationship with the original donor ( N =34)

Ranking of GIK challenges for organizations receiving 70% for more of donations from original donors (N =23)	Mean value (scale 1 - 6)	Ranking of GIK challenges for organizations receiving less than 70% of donations from original donors (N=11)	Mean value (scale 1 - 6)
Getting appropriate products for programs	1.35	Getting appropriate products for programs	2.55
Custom clearance for international donation	3.91	Valuation of the donated items	3.45
Visibility of the donation and donor reporting	4.04	Visibility of the donation and donor reporting	3.91
Transportation and storage in recipient countries for international donations	4.09	Transportation and storage in recipient countries for international donations	3.91
Valuation of the donated items	4.35	Custom clearance for international donation	4.00
Saying “No” to important donors for inappropriate donations	4.96	Lack of logistics infrastructure to collect and deliver donated products	4.73
Lack of logistics infrastructure to collect and deliver donated products	5.30	Saying “No” to important donors for inappropriate donations	5.45

2. Ranking of GIK operational challenges faced by NGOs, grouped by their relationship with final beneficiaries (N =34)

Ranking of GIK challenges for organizations distributing most of their donations directly to beneficiaries (N =15)	Mean value (scale 1 - 6)	Ranking of GIK challenges for organizations distributing most of their donations through partner NGOs (N=19)	Mean value (scale 1 - 6)
Getting appropriate products for programs	1.47	Getting appropriate products for programs	1.95
Valuation of the donated items	3.73	Custom clearance for international donation	3.53
Visibility of the donation and donor reporting	3.93	Visibility of the donation and donor reporting	3.91
Transportation and storage in recipient countries for international donations	3.93	Transportation and storage in recipient countries for international donations	4.11
Custom clearance for international donation	4.47	Valuation of the donated items	4.32
Saying "No" to important donors for inappropriate donations	5.20	Lack of logistics infrastructure to collect and deliver donated products	5.00
Lack of logistics infrastructure to collect and deliver donated products	5.27	Saying "No" to important donors for inappropriate donations	5.05

3. Ranking of GIK challenges for NGO grouped by the size of their GIK program  
( \$ value/ year) ( N =34)

Ranking of GIK challenges by NGOs receiving more than \$ 100 million GIK / year (N=14)	Mean value (scale 1 - 6)	Ranking of challenges by NGOs receiving less than \$100 million GIK /year (N=20)	Mean value (scale 1 - 6)
Getting appropriate products for programs	2.07	Getting appropriate products for programs	1.50
Visibility of the donation and donor reporting	3.57	Valuation of the donated items	3.50
Transportation and storage in recipient countries for interna- tional donations	3.93	Custom clearance for interna- tional donation	3.80
Custom clearance for interna- tional donation	4.14	Transportation and storage in recipient countries for interna- tional donations	4.10
Saying “No” to important donors for inappropriate dona- tions	4.64	Visibility of the donation and donor reporting	4.30
Lack of logistics infrastructure to collect and deliver donated products	4.79	Lack of logistics infrastructure to collect and deliver donated products	5.35
Valuation of the donated items	4.86	Saying “No” to important donors for inappropriate do- nations	5.45

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